Grain executive Peavey Heffelfinger, who at that time also was chairman of the Republican National Finance Committee. The 45-minute meeting with Benson was used mostly for pleasantries; this seemed not the place for partisan pleading. Benson wrote Heffelfinger afterward: "I have just had a most profitable and revealing conversation with John H. MacMillan, Jr."

By the end of the year, it became evident that the Attorney General of the United States was considering recommending a criminal indictment of both Kelm as an individual and Cargill as a company. In late February 1954, the United States District Court in Minnesota instituted formal proceedings that would bar trading between Cargill and its Canadian subsidiary and also would enjoin both of the defendants from exercising trading privileges in oats futures on contract markets for a time period that would be set by the federal judge. No criminal charges were contained in the complaint.[12]

John Peterson felt he might be able to resolve the case privately and went to Washington to see the CEA. Cargill MacMillan wrote his brother: "One good thing may come out of it . . . Pete is getting a first class education in what it means to be immeshed in Bureaucracy . . . he is fast learning 'Put not faith in Princes.' " The Company's statements to the public contained some rationalization, but it was plain that Cargill executives, in talking with each other, truly believed their case to be strong—and right. In this same letter, Cargill MacMillan continued: "The Government, though willing to concede (off the record) that they did not think they could make the charge of manipulation stick, did not feel that they could drop the charge because of fear of Congressional inquiry." If a Cargill capitulation seemed wise, Cargill MacMillan still felt "we are not getting justice and it makes me so mad I want to fight; on the other hand, this Oats Case has our business absolutely tied up in knots." In this same letter, he mentioned the difficulties in their overall hedging policy caused by the case. The Cargill lawyers were being extremely cautious and were urging the Company never to "contemplate buying futures of the same month that we have delivered in."

Peterson, unsuccessful in Washington, now joined the side of caution, and John Jr. wrote, in a joint letter to Austen Cargill and Cargill MacMillan in early March: "We . . . have some trouble with John Peterson's interfering with the plans of the Grain Division boys for March deliveries. Dorsey [James Dorsey, the Company's outside counsel] thought Pete was needlessly alarmed about it. In any event, the effect was that Pete would not let the boys deliver and the cost was very considerable to us."

Partly because of the case itself and partly because of this internal cautionary pressure, John Jr. decided to again review the Company's basic concepts in regard to hedging. In an internal memorandum, he reiterated

that Cargill "is not willing to carry overall or spread positions merely for the sake of a possible speculative profit. Any spreads entered into must be of a nature which will directly facilitate business." In this same memorandum, he also stated that, because of the CEA restrictions, all of Cargill's subsidiaries had to be considered as one total position, "so to eliminate any possibility of exceeding legal limits."

Austen Cargill, for one, was not in favor of a negotiated settlement. He wrote Cargill MacMillan: "I was in hopes we could use the Oats Case as a means of restoring the damage which has occurred to our integrity these past years, for I firmly believed we were either innocent of manipulation or it was time we learned where we stood on the matter. A settlement of the case won't do that . . . being denied trading privileges . . . won't help our integrity very much." Austen attributed the pressure for settlement to the lawyers, but ended, "If there are no definite facts that our legal position is weak, I believe our moral position is strong enough to go through with the case, even though it's going to cost some real money and serious intangible losses."

John Jr. apparently believed Cargill would lose the fight, however, and finally made the wrenching decision to accept the findings of the court about Cargill's past trading in oats—there seemed no doubt about the facts—and to abide by all of the remedies asked by the federal lawyers. The disruption to the organization weighed heavily in this decision. John Jr. wrote his brother: "This litigation has been the very devil, with the real cost the loss of time of our executives. It has put an impossible burden on you and of course all progress has stopped."[13]

On May 3, 1954, Cargill agreed to a stipulation from George E. MacKinnon, the United States Attorney for Minnesota to accept the court's final judgment without a trial, with this final judgment not to be considered as admission that the defendants had violated any law. On the same day, the CEA issued a decision and an order barring Kelm and the Company from trading in oats futures on any contract market for the remaining seven months of the year 1954. The complaint against Kelm as an individual was dismissed. The consent decree also specified that, for the purposes of any Cargill futures transactions, the grain stocks of all subsidiaries would be treated as though they were the stocks of Cargill, Incorporated. Shortly afterward, an antitrust suit brought against Cargill by two CBOT traders, alleging "losses of income and profits" caused by Cargill's oats imports, was dismissed.

The CEA had been a reluctant antagonist. John Jr. wrote his brother after the settlement was reached that both the Justice Department and the CEA "have said that we could write the language of the stipulation ourselves and make our denials of guilt as vigorous and all-embracing as we desired. All they insisted upon was that they have an order to which we

agree which they can show to those people who are putting pressure on them—something which makes it look very much as though they had been very tough with us. . . . It is very plain that neither Justice nor the C.E.A. really believe we have done anything wrong, but it is equally plain that they have been under very heavy pressure from those rascally senators."

The day after the CEA order, the Company put out a special announcement to its employees, which comprised mostly a long and rather legalistic letter from James Dorsey to John Jr. There was a two-sentence conclusion: "The fore-going summarizes the technical aspects of the case. All employees are authorized in their conversations with others to state that the Company is not convicted of any wrong-doing, and to repeat and emphasize our denial of any such wrong-doing."

John Jr. was unchastened. He wrote a friend three days later: "The government knew they had no case, but they had had so much publicity about the thing that again they had to have some outcome that would look as though they had won a great victory. We therefore agreed voluntarily not to trade in oats futures for the balance of this year. In view of the short crop coming up, this means very little to us." When the *Minneapolis Star* wrote a front-page story with a headline "City Firm Barred from Trading in Oats This Year," John Jr. wrote a long, huffy letter to the editor pointing out that it was only oats *futures* that Cargill had been barred from and that it still was free to trade cash oats. The editor responded with a long *mea culpa*, effusively apologizing for "this regrettable matter." The fact remained, of course, that Cargill *had* backed down and accepted a disciplinary penalty by the government.[14]

John Peterson penned a more diplomatic letter at this same time to "our banking friends." It was a long letter, emphasizing the political nature of the charges and the preoccupation and expense of fighting the case. "The management of the principal contract market and the Commodity Exchange representative in said market evidently did not see any manipulation of oats prices . . . and we think their eyesight was good." He continued: "People who know us know that Cargill is not a speculator as the term is understood in the trade . . . that we are not manipulators."

Once again, Cargill made the pages of *Time* magazine. In its May 17, 1954, issue, under the title "Wild Oats," the editors covered the specifics of the Oats Case, noted the consent decree barring the Company from trading oats futures and referred again not only to the 1937 Corn Case but also to the fact that the Company was "indicted for converting to its own and its customers' use 80,000 bushels of corn stored for the Commodity Credit Corporation." This was the Albany CCC storage case, which had not at that time yet been settled in Cargill's favor. The *Time* piece was negative throughout; it certainly hurt the Company's public image.

Two of its well-respected neighbor firms in Minneapolis also had serious

legal problems with the federal government at this same time. In October 1954, Archer-Daniels-Midland Company had entered a plea of guilty to a number of counts brought by the CCC relating to statements to the agency under the International Wheat Agreement concerning export subsidies. Pillsbury Mills, Incorporated, was indicted the next month on a similar case involving the agreement.

The Cargill Oats Case was not to be readily forgotten. Ten years later, in 1965, *Fortune* magazine referred to it at length as an example of "Cargill's aggressiveness as a speculator" (in a long and otherwise complimentary article on the Company with the interesting title "The Two-Billion-Dollar Company That Lives by the Cent.")[15]

John Jr. had mellowed some about the case by 1955, when, to the surprise of many people, he accepted the assignment mentioned in chapter 12, to make an address before a Chicago Board of Trade symposium. He prepared a hard-hitting speech, full of factual material about grain trading. Once more, he took strong exception to the way the CBOT viewed performance responsibilities for futures contracts but couched this in a more conciliatory and friendly way. He reserved most of his venom for the government, reciting briefly the price control problem in 1946 and then giving a long discourse on what he called a "case history" of the Oats Case. He appealed to the CBOT members' pocketbooks by showing in a series of charts that oats futures trading had declined measurably since Cargill had been barred from futures trading. "Cargill's oat merchants," he stated, "had learned how to offset cash purchases by cash sales, which resulted in a great reduction in the cost of hedging." He built a picture right before the attendees' eyes of futures-trading commissions disappearing into thin air. The speech was a great success; the parallel to Daniel having the courage to enter the lions' den was not lost on most people.[16]

With no ability to trade in oats futures, the question of how Cargill was to hedge cash oats was not easy to solve. Julius Hendel favored not hedging the oats inventory at all when cash oats were bought—in effect, taking a position on one side of the market, an outright speculation. Bob Diercks, who had just returned to Minneapolis from St. Louis as merchandising manager for the Grain Division, suggested corn, inasmuch as oats and corn were feed grains and there was some relative pricing ratio between the two. John Jr. felt strongly that selling soybean futures against the cash oats was the best choice. When Hendel suggested they compromise on the corn suggestion of Diercks, John Jr., exercised, insisted on the soybean choice.

As it turned out, the Hendel choice would have been best. Corn went up a small amount, but this also would have given some protection. John Jr.'s soybean choice, the one actually made, was not successful, for soybean prices had gone in the wrong direction. At one point, the oats account was down some $2 million. Finally, the prices turned, and the account came

back almost to even. The Company was able to get out of its position with only some loss but it was a nerve-wracking experience. It must have been somewhat embarrassing to Hendel when he turned out to have been right and John Jr. wrong, for John Jr. was known not to enjoy being flatly shown as incorrect.

One effect of the case was to raise Diercks to a higher role in the Grain Division. Erv Kelm had been temporarily assigned to John Peterson as a tactical measure to get him away from the case. He was to spend the time familiarizing himself with Nutrena and the Oil Division. John Jr. wrote Austen Cargill and Cargill MacMillan: "I regard this as constructive no matter how you look at it . . . it will give us one more man from whom to draw in case we need someone familiar with all phases of the business. . . . I am satisfied now that we have a completely competent understudy should Kelm have to be used for other purposes."[17]

This was the denouement of the Oats Case, one of Cargill's most painful litigations. Now we return to the beginning year of the Oats Case, 1952, for another important event.

The Dwayne Andreas "Resignation"

In March 1952, at the height of the development of the three legal cases just described, Dwayne Andreas received an invitation to go to a trade conference in Moscow, which was to be held on April 10, 1952. He would not be a formal delegate but would accompany a French group that included members of the Goldschmidt firm, Cargill's agents in France. This was a tempting prospect, for the Oil Division guessed that there was a substantial vegetable oil marketing possibility in the Soviet Union.

Telling no one, Andreas went to Washington, where (with the help of political contacts) he was able to get a visa, a not inconsiderable step at the height of the cold war. It was made clear to him there, however, that he was not to assume a public profile in making the trip—a private overture on trade was not governmental policy at this time.

Returning to Cargill, he told Julius Hendel that he was leaving in a few days, that he had the Goldschmidt connection, which would be ideal for Cargill if anything came of it, and that he had to stay "out of sight" during the time he was gone. John Jr. was on vacation and could not be reached. Hendel worried a great deal about the Andreas decision, feeling he himself might be blamed for allowing it. Unfortunately for Andreas, Hendel told John Peterson. Peterson hit the roof, stating as he had often in the past, "The banks will cut off our credit" (this may not have been an idle concern this time—the Joseph McCarthy/Patrick McCarran legacy was still strong, and being "soft on communism" was just about the worst of epithets).

Andreas promised that he would visit David Rockefeller at the Chase National to explain as soon as he got back.

The next day, Hendel begged Andreas not to go and ended by saying, "I am *ordering* you not to go." Andreas responded, "Now, Julius, you know you don't mean that." Later that day, Andreas had a note on his desk to call John Peterson but ignored it and left for the trip.

The Soviet visit was an eye-opening experience for Andreas, and he brought back vast amounts of information useful to Cargill about the country and the specifics of trading prospects. John Jr. was back in the office now and called in Andreas. John Jr. reported that John Peterson worried that the banks would take a poor view of the visit and that, further, the fact that Andreas left without approval of top management was "insubordination." After saying this, John Jr. admitted that he was being urged by Peterson and Terry Morrison to take action; it did not seem to be John Jr.'s decision (Andreas remembered): John Jr. told Andreas, in effect, "Sometimes these things blow over—let's sit tight for a week."

Unfortunately, hints of the disagreement had seeped out to other members of top management. Andreas talked again with John Jr.; earlier he had offered to resign if John Jr. felt it best, and now John Jr. asked that Andreas do so. "I *have* to accept your resignation," Andreas remembered John Jr. saying—it seemed clear to Andreas that John Jr. was a reluctant partner to Peterson and Morrison on the matter. Nevertheless, Andreas stepped down as head of the Oil Division and left the Company at this point. His common stock in Cargill was redeemed, at a substantial profit to him, according to a formula established earlier. He also terminated his ownership in the family transportation companies of which he had been a common stockholder with other top management people.

It is impossible to judge objectively the impact of the loss of Andreas to Cargill. He went on to an outstanding career, first with his own family company in the vegetable oil business, then as an executive with the company that bought it, the Grain Terminal Association (later called the Farmers Union Grain Terminal Association), and finally as majority owner and chief executive officer of Archer-Daniels-Midland Company. It is not possible to know whether Andreas would have attained this outstanding success had he stayed at Cargill. John Jr.'s comment to Andreas at the time that he joined Cargill that he "thought like an owner" seemed a perceptive statement. The Andreas personality had not been truly congruent with the other executives. His élan seemed particularly to antagonize John Peterson. The year 1952 had not been a good one for the Oil Division, in part because of long delays after fires in San Francisco and Cedar Rapids and also some trading in soybean oil that backfired. John Peterson wrote a private letter to John Jr. about these trades, putting his feelings in a deliberately negative way: "Quite frankly, I am shocked—deeply shocked—by

the decisions that were made appertaining to the operations. . . . Apparently these poor decisions were too many, too often, too costly. I never would have believed they could have happened under Cargill's roof."

John Jr.'s subsequent report to the shareholders was more moderate, but he too commented: "Hindsight shows such early sales to have been a mistake. . . . Doubtless, too, in the daily operations a great many mistakes were made." The bad year for the Company had seemed to heighten the rhetoric considerably, and this may have contributed to the irretrievable step taken in regard to Andreas.[18]

Tightening the Organization

Even before the incident of the Andreas "insubordination," Cargill MacMillan had written Austen Cargill: "Our bad record this year is going to be a Godsend. It is going to enable us to reinstate discipline before it is too late." John Jr. used the same theme in a blunt letter to all division heads in June 1952. He asked for "some fresh, constructive thinking . . . with respect to income and expense in your division" and added, "the past 8 to 10 years have led many of us to lose sight of the hard-nosed principles of sound business judgment."

The replacement for Andreas as acting head of the Oil Division was M. D. "Pete" McVay; he was a tough-minded, no-nonsense manager who fitted well John Jr.'s desire for "hard-nosed business judgment." Under McVay the Oil Division became known for its dedicated group of senior managers, men such as Harvey Marxhausen and John Mogush. There had been continuing tension between the Oil Division and the Grain Division, particularly over soybean purchasing—when and how much. Just a few months earlier, in November 1951, John Jr. wrote John Peterson that these two divisions were again in confrontation. The Oil Division wanted to buy beans; "however, anything they do buy is at the expense of the Grain Division turnover volume, so Julius is faced with quite a problem." Shortly after McVay took over the division, he had a long bargaining session with Kelm, and out of this came a written agreement about purchasing policy and how to handle the interdivision brokerage charges. There still remained a problem about how much allocation of space in the Chicago terminal to give the Oil Division—McVay wanted 2 million bushels; Kelm wanted to hold it to 1 million bushels. The executive committee was forced to adjudicate the situation, and McVay won.

Fortunately, the crop year 1952–1953 was excellent for the Company. The overall profits were over $4.4 million, with the Grain Division contributing almost $2.4 million; Feed, $1.4 million; and the Oil Division, almost $970,000 (this included the Falk Division, which now had been folded into the Oil Division).

In the midst of all of the legal problems, the shortfalls in profitability and the organizational infighting, E. J. Grimes died, on September 16, 1952. He had retired from active work in the Company in 1950 but had remained on the Cargill board of directors, although not particularly active. His death marked the end of an era, for he was the oldest senior management person remaining from the generation of John Sr. Born in La Crosse, Grimes had begun working for the Company at 19 years of age in 1904, just a few months after John Sr. had come to the Cargill Elevator Company. A director of the Company since 1926, he had been a major force in the Company for many years. His assignments were truly "myriad" (so said *Cargill News*), with a wide range of responsibilities in the Company and major assignments in the industry. He had been president of the Minneapolis Grain Exchange, the Minneapolis Traffic Club and the Minneapolis Chamber of Commerce and had been involved widely in national industrial and political work. During World War II his work nationally in developing priority systems for railroad freight was acclaimed. Terry Morrison stepped into the empty position on the board, and John Peterson, board member since 1936, became vice chairman.

In August 1953, a major retirement took place when Austen Cargill chose to step back from active involvement in the business. Austen, too, was of John Sr.'s generation (although not of his age). He had come to the Company in 1909 and at one time or another had taken major responsibility for a great many functions in the business. He, more than Grimes, who in 1909 was just a secretary, carried memories of his father and the 1909 struggles to redeem the W. W. Cargill estate's debts. Austen also carried the remembrance of the 1925 revolt. His particular interests were in the country elevator system and in transportation. But his influence in the Company extended far beyond individual operations, for he had been a moderating force on John Jr. through many years. Fortunately for the Company, he decided to continue his active involvement on the board of directors, although relinquishing its chairmanship (John Peterson assumed this position, John Jr., of course, continuing as president and chief executive officer).

The country elevator system had continued to flourish and contribute to operations, almost unnoticed. By May 1952, the number of country elevators was reduced to 49, at just 36 locations, from the 100 plus of the 1930s (and more before that). Yet the division was doing more business than it ever had. There were several reasons for its continuing efficiency. Trucking had wrought a revolutionary change for the farmer, who could take his grain many dozens (or even hundreds) of miles to market it. Over the years the division had consolidated its operations into many strong regional subterminals. In the year 1952, two substantial new country elevators had been purchased, one at Grandin, North Dakota, and the other

at Milbank, South Dakota; and surveys were underway at this time for more of these larger houses. In October 1951, Erv Kelm had developed a new regional organization for the division, with regional managers for the Northwest, Central states, Southwest, South, and West Coast. A set of branch offices in each of these regions allowed a more effective devolution of responsibility, in keeping with the general pattern of decentralization taking place in the Company at this time.[19]

Rededicating the Company: John Jr.'s Stillwater Speech

The demoralizing year of 1952 had jolted Cargill's top management. Even the self-confident ebullience and unbounded optimism of John Jr. seemed shaken. Organizational moves had been taken to recapture that "discipline" that Cargill MacMillan had spoken of, that "hard-nosed" attitude that John Jr. had recommended to the division heads. Yet these steps, important as they were, did not get at the heart of the matter: the recapturing of the actual Cargill management philosophy itself.

John Jr. now took an occasion to attempt just this. In March 1953, he was asked to address one of the Company's Stillwater management conferences. Here he made a long speech that was subsequently published. It was blunt, frank and self-critical about the Company and its management in a manner seldom heard from John Jr. in the past. Now there was no bombast and little of the self-justification that had marked his writings during the course of those previous years. The period from World War II to 1952 "got away from us," he began; "perhaps we were biting off more than we could chew." He added, surprisingly, "In retrospect, I think we were. At any rate, our discipline within the organization was non-existent." These cumulated to bring the 1952 problems that "all hit us in one year. . . . We haven't dug out yet, and the consequences of them were so serious that I shudder to think of them."

Blame was spread out "in all divisions," although less in the Feed Division. However, "the Grain Division and the Oil Division were terrible." He then recited chapter and verse, first mentioning a wide range of laxness, poor reporting, and so on and then devoting himself to the legal cases at hand. The Albany Corn Case, with its many criminal indictments, was still not over. "Probably all but one or two of them have no merit whatever," John Jr. continued, "but even the fact that one or two could have any merit is an appalling situation. There was no intent to defraud. Great Scott! We are not out to defraud anyone. That's the last thing in the world we are thinking of." However, "our negligence . . . has exposed us to these charges. And there's no use kidding ourselves."

John Jr. spent several minutes discussing the Seed Adulteration Case. While it was due to several people shading the facts and rationalizing illegal acts by calling them "trade practice," it was management's responsibility (as the judge pointed out in the case) to be alert about this—"He felt that Cargill should be fined, not because of the lack of integrity of people at the top, but because of their negligence in placing in positions of importance men of such low character. And I agree with him absolutely. I think he was just as right as right could be." (The Oats Case was not far enough along in the courts at this date to feature in John Jr.'s speech.)

The bulk of the speech was devoted to more basic questions of ethics and values. Cargill always had hired people of ability who wanted to work. "But that's not enough," John Jr. continued; "we've got to watch out for these character points." There were specific ways to identify a man's character. First, Cargill watched expense accounts closely—"how scrupulously honest are they?" Critically important was the matter of self-discipline. Cargill had had many extraordinarily brilliant people who should have gone places, but "weaknesses turned up—alcohol, women, finances, or perhaps they were just too fat" (John Jr.'s single-minded allegiance to the rice diet had made him a zealot about fat). John Jr. would not tolerate dishonesty—it was subject to immediate dismissal—and he had just let go one of the Company's top administrative executives for being inebriated on the job.

There were other key character defects: a man who "won't admit he has made a mistake," the lack of loyalty and "always thinking of himself" (here he specifically alluded to defectors who played competitor salary offers against Cargill's). The argument that "my competitor's doing these things and we have to meet competition" was pure rationalization, and Cargill must have men who are "willing to make important nearby sacrifices for the sake of a principle."

John Jr. then returned to a theme he had stressed earlier, the importance of temperament and "manners." He made clear that he was not speaking of the "superficial aspects of manners—ability to handle a knife and fork" but those qualities that allowed a person to get along with his fellow man. One had to have much human contact to develop this, he continued, so that one found the poorest manners on the farm "because, after all, the human contacts are fewest." He then generalized on this point, that the farther east one goes in the country, the more manners improved. However, "as we go East, the willingness to work also decreases, so these two important qualities meet in about the right proportions here in Minneapolis." John Jr. stressed again the quality of self-control, "that you conceal your emotions." Grain trading brought intense pressures, and John Jr. wanted to be certain that those "nervous, highly-strung types" were identified and that the Company "not push them too hard and too far. . . . If

you crowded it on them, they would have a nervous breakdown . . . you have to gauge your promotions within the physical capacity of the men you are promoting. Don't be misled because he has great ability."

Predictably, John Jr. devoted a few sentences to one of his own personal peeves—the Yale men. For good manners, "you do the utmost possible to be as smooth as oil. The models of that are the Princeton men. I feel, that of all the colleges in the East, they somehow at Princeton have succeeded in getting a tradition of manners there. They have certainly done far better than they did at Yale." The Princeton men, on the other hand, "are always in demand for posts that require that type of thing. They are magnificent diplomats."

Throughout the speech, John Jr. stressed the quality of balance. He used the relationship between himself, Cargill MacMillan and Austen Cargill as his example. "None of us are very well rounded," he admitted. Brother Cargill "has critical powers that I think are the best in Cargill. . . . He is simply magnificent." On the other hand, Austen Cargill "can do things in the field of morale and human relations that neither my brother nor I can do. . . . Austen can come in and he'll say, 'well, here's a situation we're handling that's terrible. This would demoralize any outfit.' He's always right. I'd never sense it nor see it until he points it out." It was this type of balance that "keeps an organization clicking and pulling together and getting results."

In the final analysis, the most important single thought that seemed to permeate the long speech was the importance of integrity. Indeed, in the small handwritten outline that he used to make the speech, he had printed the word *integrity* at the bottom in capital letters and underlined it. John Jr. saw this moment as a time to stress once again, and deeply, the very values and root beliefs that the Company had stood for over the years from back in the days of the founder, W. W. Cargill, and the exemplary leader, John MacMillan, Sr. Most organizations have that "moment of truth" when everything they stand for is on the line and can only be recaptured by an incisive act. John Jr. truly felt this to be so and said so, explicitly, in the speech: "It would not have taken many more of these things—I'll say this quite frankly—to compel the liquidation of Cargill, Inc." The speech was in all respects a tour de force.[20]

The Beginnings of Tradax

"It had taken nearly a century for Cargill to move out into the world dominated for so long by the Europeans" (so said Dan Morgan in his book *Merchants of Grain*); "but when John Junior and his brother Cargill MacMillan finally ordered it done, they took two steps that put them ahead

of all of their competitors. They organized an overseas subsidiary in Geneva, and they built an enormous grain elevator at Baie-Comeau, Quebec, a remote, ice-free port at the mouth of the St. Lawrence River." The Geneva project began now; Baie Comeau is discussed in the next chapter.

The three family members in the Company—John Jr., Cargill MacMillan and Austen Cargill—long had been interested in an offshore company. To be precise, Cargill MacMillan had the abiding drive for it. He had been particularly upset by the New Deal period, with its steeply rising corporate and personal taxation. All through the 1930s, he had proposed various plans, had had Cargill's lawyers search out legal ramifications, and had even visited some likely locations (Guernsey, in the Channel Islands, for example). The demanding World War II years and the hurly-burly period right after the war had shunted these plans aside. By the late 1940s, however, the idea surfaced once again, and this time the impetus was from a John Jr. memorandum to the other two. The prevailing political climate in the country now seemed to preoccupy John Jr., and he wrote: "I see breakers ahead for the near future (3 to 10) years and utter disaster for us and our children during the next generation." Still, he continued, "I do not think we need fold our hands and say 'So be it.' " He then outlined some tentative ideas for a new approach to overseas endeavors. Donald Levin, a young Company lawyer, was given the responsibility to flesh out this proposal.

In December 1951, Levin presented a lengthy memorandum on a "Proposed Foreign Trading and Shipping Operations." Whereas Cargill MacMillan's efforts in the 1930s had emphasized tax avoidance (and even John Jr.'s rough draft had this focus), now the issue was put more clearly in terms of the operational advantages of a foreign effort. Levin pointed out that the Company had spent "some twenty years of attempts to gain a foothold in international and foreign trade . . . with foreign offices . . . contacts with foreign business agents . . . three ex-North American subsidiary companies . . . and diligent efforts . . . made to compete effectively in world trade." Yet, with all of this, Cargill had had only limited success. There were several telling reasons:

1. Cargill's competitors, especially the large European and Argentine grain trading companies, "have much lower costs . . . since they are organized under political jurisdictions favoring such businesses through much lower tax policies and the granting of greater freedom in business organization and practices." Foreign transactions of large magnitude "can be efficiently developed only if segregated from domestic U.S. business." Foreign trade was essentially different, and "only by organizing it on an independent basis under people with special background and training can full returns be achieved. Language problems, shipping and warehousing matters, currency questions, local trade customs and practically every phase of such business is sharply different from domestic transactions."

2. Cargill did not wish to "subject its entire financial resources to turbulent

conditions in foreign countries . . . which inherently involve a great deal more financial risk than does its North American business."

3. Although Cargill's holdings outside of North America were negligible (Levin estimated less than 1 percent of its net assets), their administration "has required an excessive and disproportionate amount of the time and effort of the Cargill management."

4. A local corporation "has an important and distinct political advantage over an American company."

In sum, Cargill was finding itself under increasing competitive disadvantage in respect to its arch-rivals, particularly Dreyfus, Continental, Bunge, Garnac and the other large international trading houses. Erv Kelm, in a later memorandum, likened it to the "endless belt theory" of John Jr.:

> Entering into all phases of the business (that is, from primary source to ultimate consumer) . . . there would be little increments along the line which in total amount to substantial margins. Each factor by itself . . . is not important, when they're all added up they are very important. This has been Cargill's theory . . . domestically from the western country elevator to western terminals—to Buffalo terminals—to the export function in New York. [The international company] now is to pick up small increments from F.O.B. United States ports . . . brokerages on freight and sales brokerages formerly paid to others, exchange margin, freight position profits. In addition . . . there usually is an over-all trading margin—both domestic and foreign. If either party to this team . . . tries to extract too large a fee for any of these functions . . . it interrupts this endless belt and these increments stop—Continental does the business. I am sure Continental effectively operates on this endless belt theory.

By late 1951, the basic plan was in place. The lawyers briefly considered Nassau, Lichtenstein, Monaco, Tangiers, Liberia and Macao, then settled on Panama as the country of incorporation for a new company, Cargill Internacional, S.A. This Panamanian entity would be empowered to hold shares in foreign corporations and to invest in subsidiary companies that, in Cargill MacMillan's words, "would do any and all *intra* national business . . . to support the primary purpose of the parent company." He defined "intra" as "domestic business, that is, business which, under the laws of the country in question, is considered to be 'doing business within the country.'" In turn, the Panamanian company would be "so clearly managed and directed from outside of the United States that the taxing authorities of the United States could not lay claim to any taxes on its profits." Both voting control and management would reside outside the United States. The Company's external counsel made this even more specific: Cargill, Incorporated, could not "supervise and analyze" the Panamanian company, for "any evidence of direct control of Internacional's everyday affairs by Cargill, Incorporated's officers or employees would seriously jeopardize the former's chances of defending its status as a non-

Walter F. Gage.

resident corporation for United States tax purposes." Putting it simply, the Panamanian operation had to be absolutely separate.

The ownership structure for the new company was similar to that of the Minnesota Western Company and the Minnesota River Company, in that the three family members, the other minority family holders and key top management people could participate. The main difference in the case of the Panamanian company was that Cargill, Incorporated, was to have *no* relationship to it. There were to be two classes of preferred stock. The first preferred stock was to be held by the Cargill Foundation. The funds from the Foundation's purchase would provide the main capital infusion, some $300,000. The second preferred stock would be held by the three family members and offered to all of the Cargill, Incorporated, minority stockholders (other family and key management). About $50,000 was expected from this source. There also were two classes of common stock. The Class A stock was to be noncallable, and holders would elect the majority of the board of directors. This stock was to be held by the Salevia Foundation, a Swiss entity that had been formed in September 1952 by the three families. The Class B stock was to be offered to any of the subscribers to the second preferred—the three family members and the other Cargill, Incorporated, minority stockholders, in proportion to their holdings of Cargill, Incorporated, common stock.

Thus, this ownership structure for Cargill Internacional (a) vested control in the three family members but gave representation in both preferred and common stock to the minority stockholders in proportion to their holdings and (b) satisfied the requirement that the entire organization be completely separate from Cargill, Incorporated.

These organizational details took many months to complete, but by 1954 Cargill Internacional was an operating company (the office in Panama first headed by C. C. Boden and later by John Shenard). The initial impetus for an international trading company had come in 1951, when the Oil Division had proposed to charter or buy a vessel to transport copra from the Philippines to the United States. Indeed, the Philippines originally had been thought of as a possible Asian base for the Company. So when Cargill Internacional was established, one of its first interests was copra. Management companies were needed in various countries of the world to accomplish this and other trades; now Internacional established these new units. An operating company called Coprax was set up to emphasize the copra-trading aspect.

Panama was not a good location for actual trading; its communication links to the rest of the world were too primitive. So a new entity was established in Winnipeg, Manitoba. As more than copra would be traded, the name Coprax was changed to EMCO, Ltd. Initially, Winnipeg seemed to be a good central location, but it soon became apparent that the center of world grain trading from Canada was in Montreal, so in mid-1954 the management company was moved there.

Concurrent with the Montreal move came a new European trading company for Cargill Internacional. At first, the lawyers thought that Cargill Internacional might be able to use a Dutch company, Cargill Handel Maatschappij, which had been set up in the 1930s by Cargill Grain Company, Ltd. Handel had done some trading in the 1930s but had become completely dormant during and after World War II. The possibility of reactivating Handel was explored, but the potential tax implications and memories of World War II difficulties with Leonard Corlett's exodus seemed to make a Dutch base unwise. This led to the eventual formation of the trading company in Antwerp. Belgium had been the first to start up private grain trade after World War II (while most of its neighbors still were dealing government-to-government) and had been a funnel for grain to and from the Hanseatic states since the 18th century. Almon Greenman was to be the new company's head (resigning his longtime position with Cargill). He suggested the name: since the Company was to "trade," Greenman added an "AX," and the firm name became Tradax Belgique.

At the same time, a presence in England was developed, to be handled through the office of Ross T. Smyth, Cargill's British link. Michael Cross, the families' longtime friend, handled this with B. B. "Stu" Hanson, a

young Cargill man, as his assistant (Hanson resigning from Cargill, too). It also was intended that within a short time Cargill's Argentine and Brazilian operations would be separated from the Company and become part of Cargill Internacional.

The new name for the Montreal operation was Cargan, but then it was changed to Kerrgill Company, Ltd. While this name, too, lasted only a few months, the "Kerr" in that name is an important story.[21]

The Purchase of Kerr Gifford

Cargill never had been strong on the West Coast. The Portland terminal was a modest performer, the San Francisco copra operation rather specialized. More important, the Company had little expertise or contacts with the huge trading area of the Pacific that now is known popularly as the Pacific Rim. By the early 1950s, with the settling of the Korean War and the increasing prosperity of Japan, Taiwan, Hong Kong and other Asian and Pacific countries, it became evident that any company wishing to be engaged in the world grain trade needed roots in the Pacific Rim.

In early 1953 just such an opportunity surfaced for Cargill. A major West Coast grain-trading company, Kerr Gifford & Co., Inc., became available for purchase. It had been founded in 1893 and now was run by two second-generation Kerrs, Thomas and Andrew (the Gifford of the original firm had returned to his native Scotland). Kerr Gifford long had been a grain-trading company and even had been a large flour miller. At this time, in the early 1950's, it held owned or leased terminals in Seattle, Portland, Vancouver, San Francisco and Sacramento and a number of country elevators on the Columbia River in the Klamath Falls area. In addition, it had an important subsidiary in New York City, Smith-Murphy Co. Inc., a grain trading office for Atlantic Coast and European business as well as for most of Kerr Gifford's Pacific Rim business. The Kerr family's offer to sell was a unique opportunity for Cargill to make a quantum jump in its international trading. John Peterson commented about the fit between Cargill and the new companies: "We ought to be able to carry a lot of our own trades with Smith Murphy and with Kerr Gifford . . . keeping under the combined roofs a lot of money that goes out as surplus to others, for which we receive no adequate return."

In June 1953, Cargill's board agreed to pay the Kerr Gifford owners $4,250,000 for purchase of all of the stock. Thomas Kerr stayed with the Company, but this did not work out well, and he stepped away from Cargill in 1955. John Cole, one of the senior managers at Kerr Gifford, stayed with Cargill for the rest of his career. On November 1, 1954, Kerr Gifford was merged into Cargill as the Kerr Gifford Division. The Smith-Murphy people also stayed with Cargill, and the head of the New York

office, C. J. Stuart Allan was posted to Winnipeg for the new unit there, still at this time called Kerrgill.[22]

The Move to Montreal—and to Europe

The move to Montreal of Cargill Internacional's subsidiary, Kerrgill, signaled the beginnings of actual international trading. Stuart Allan was president, assisted at the start by Robert M. Hatch; later, Addison Douglass, Michael Sladek and W. Duncan MacMillan (John Jr.'s younger son) joined them. A Vancouver office was also to be maintained, headed by R. L. Mikkelson. All had been required formally to resign from Cargill.

The name of the Montreal group still bothered a number of people, Cargill MacMillan's younger son, Whitney, for one. It was just too close to Cargill. A natural extension was to adopt "Tradax," and the Montreal operation was officially renamed Tradax, Canada, Ltd.

With skilled people in all of its offices, Internacional now began trading. By the end of 1954, with only three months of operation, it had made over $300,000. This was a promising start, for its total capitalization was just $310,000. Its annual report of May 31, 1955, noted extensive wheat trading from Commodity Credit Corporation tenders, a number of corn sales to the United Kingdom and to Japan, and some less effective sales of oats. Substantial barley had been traded, and a large United States soybean crop had resulted in substantial Tradax sales to Japan (with the help of an agent there, Andrew Weir & Co.). There also had been some interesting barter arrangements—for example, Czechoslovakian cement for wheat.

Another function of Tradax in which Cargill had had only minimal experience was trading ocean freight. In his annual report, Stuart Allan commented on this: "In today's international markets, where competition is keenest, freights are a decisive factor. . . . Many times we have lost business merely because our judgment on the freight market was not sufficiently keen. . . . The freight factor has become more and more paramount in our calculations." While the Tradax group did reasonably well here, they miscalculated when severe Atlantic weather delayed some of their charters. A particularly "cruel blow" (Allan's words) occurred when one ship, the *Transnorthern*, suffered a cracked piston and arrived many days after it was expected. They had chartered the *Clintonia* for several consecutive trips and found this longer-term commitment not sufficiently flexible. Allan ended: "It is our belief that ultimately we must either own or time charter tonnage [chartering shipping for a given period of time, rather than a 'trip charter,' for a particular voyage] to fill our requirements, so important has the freight factor become."

While the first year of Tradax was a success on many fronts, there were lingering problems. The Cargill lawyers continued to chide Tradax people

for not maintaining their separation from Cargill Internacional. Don Levin wrote Cargill MacMillan about this in November 1954. Not only was Tradax drawing on Cargill's expertise in a number of fields—law, finance and accounting, insurance—but "actual trading decisions and basic underlying studies on which trading conclusions are reached, are almost completely being done in Wayzata" (the Lake Office, Cargill's headquarters, was in Minnetonka, Minnesota, bordering Wayzata). On freight, the Tradax interaction with Cargo Carriers Incorporated (CCI) was substantial. In banking, it was clear that the bankers looked upon Cargill, Incorporated, as a backup for Cargill Internacional. Under pressure from Levin and the other lawyers, the Tradax operation moved away from Cargill, Incorporated; the second year of Tradax operation was much more independent than the first.

In early 1955, the CEA had a series of contacts with Cargill as to whether Cargill, Incorporated, needed to include the futures trading of Cargill Internacional in the Company's reports to the agency. In the settlement of the Oats Case, just a few months before, the CEA had ruled that the Company's Canadian subsidiary (Cargill Grain Company, Ltd.) could not be treated as a self-standing, independent unit and that the limits rules for the Company had to include the subsidiaries. It was generally known, too, that the CEA was disturbed by its difficulty in tracing ultimate ownership of foreign-held positions for all companies on contract markets in the United States. In October 1954, the CEA passed a new regulation concerning this. As a result, the CEA pressed hard for the Cargill, Incorporated, limits report to include Cargill Internacional. Cargill executives maintained that the companies were two separate entities but "nevertheless agreed to indicate by footnotes on its weekly cash grain reports the amount of its purchases and sales commitments with Cargill Internacional." The effect of the exchange of letters spelling this out "is simply a truce," an internal memorandum noted, but it did represent a "substantial concession from the rigid and uncompromising attitude adopted by the CEA at the beginning of discussions." Nevertheless, the CEA query added concern regarding the issue of Internacional's independence.

A half dozen years later, Tradax was brought into Cargill, Incorporated, and when this occurred there were real difficulties in integrating the two, given the high degree of Tradax independence and self-guidance. Many seeds of discord had been sown between the two organizations over this first period of independent operation. The Tradax merchants were considerably more free-wheeling than their counterparts in Minneapolis. Limits policies at Tradax were less tight, and traders more than once took flat positions on one side of the market. Sometimes Cargill management became quite upset by this. In March 1955, for example, the acting head at Montreal, Wallace Hyde (Allan had had a heart attack), left the office ap-

parently without giving careful instructions on positions. John Jr. was furious: "The result is they are long a staggering amount of grain at a time when we are all bearish as can be." John Jr. ruled that subsequently Cargill MacMillan was to be involved in all telephone calls between Montreal and Minneapolis. Still conscious of the requirement for separation, John Jr. continued: "He will be a liaison man in the true sense of the word . . . under no circumstances do we ever try to issue any orders but at the same time if they ask for advice I think we should see they get the best information possible *just as we would do for any other customer*" (emphasis mine).

It was evident even in that first year that Montreal was not the right place to have the main international trading office. The center of the internationally based grain trade was in Europe—in such centers as Amsterdam, Antwerp, and particularly Switzerland. In many ways Montreal had not forced Tradax personnel to really become "international." Montreal at that time was a bilingual city, with strong links to the United States. Communication between Montreal and the main areas of business in Europe was not nearly as good as if the Company had been on the spot. By mid-1955 the decision had been made that Tradax Canada should move to Europe. As Erv Kelm put it, "We will pull grain over, not push it from the U.S."[23]

Eisenhower and Republican Farm Policy

The World War II hero, General Dwight D. Eisenhower, was elected President in November 1952, as a Republican. It was the first time that the GOP had taken the presidency since the inauguration of Herbert Hoover in 1928. His first challenge was the settlement of the Korean War. The armistice that was signed on July 27, 1953, fulfilled one of his campaign pledges. In the period April–June 1954, Senate hearings were held which considerably defused Senator Joseph McCarthy's Communist-conspiracy charges. Eisenhower's first two years in office achieved considerable domestic economic success, with no major threats on the international front.

There was another Eisenhower initiative that was portentous for the grain trade. On May 13, 1954, he signed into law the St. Lawrence Seaway bill, authorizing construction of a joint United States–Canada waterway. A few weeks later he named Secretary of Defense Charles E. Wilson the director of the new St. Lawrence Seaway Development Corporation. There had been tremendous political pressures on the bill, and the final product was very much a compromise between those opposing the Seaway altogether (particularly the Atlantic Coast shipping interests) and the Canadians and Midwest Americans pressing for it. The final figure for the Seaway's draft (depth) was the key to the act. It was 27 feet (as against the Panama Canal's 38 feet), thus not allowing the larger ocean vessels to utilize the upgraded Seaway. The implications of this will be discussed in the next chapter.

The grain trade watched over its own arena, of course. The administration's Secretary of Agriculture, Ezra Taft Benson, was a strong believer in the farmers' ability to handle their own affairs. The resulting Republican farm policy was a sharp break from the past. The long-standing concept of parity at 90 percent had been maintained for two years, starting in 1952, when the presidential campaign had made Congress timid about any change. Now, however, Benson advocated return to a free market, a flexible price support that would move downward over the years.

Even Benson did not go far enough for John Jr. In July 1953, John Jr.'s friend Harry A. Bullis, who was chairman of General Mills, had a letter published in the *New York Times* that strongly encouraged Benson as "a courageous and sound public official." Bullis seemed to support the Benson parity concept. John Jr. wrote Bullis: "I quite agree with you that the Farm Program is being very badly handled. However, I disagree with you completely on your concept that it is a function of government to try to support the general price level. . . . We will never have a sound economy until there is wide realization that a managed economy simply will not work."

Later that year, John Jr. wrote a brusque letter to Arthur F. Burns, who was chairman of the administration's Council of Economic Advisers, taking exception to three government grain trades (carried out by the Commodity Credit Corporation) with Pakistan, Egypt and South Africa. John Jr. wrote: "The Democrats wisely returned the international trade in grain back to the private trade." Now the government was back into private business, "handicapped by a political price structure and incompetent carry-over Democrats who would like nothing better than to throw a monkey wrench in the present administration." John Jr. advocated leaving the effective distribution of international grain trade to the private sector: "We don't want socialism, collectivism or cooperativism as a scheme under which we and our children are to live."

The White House was disturbed enough by John Jr.'s letter to invite him to Washington to talk personally with Sherman Adams, Eisenhower's chief of staff. Later, a long letter from Gabriel Hauge, an administrative assistant to Eisenhower, noted that the three cases were "special circumstances" and that the administration was in full accord with John Jr.'s principle of private sector trade. But John Jr. remained militantly against anything smacking of control. In May 1954, he wrote Paul S. Gerot, president of Pillsbury, refusing to make a contribution to the prestigious Committee for Economic Development. To John Jr.'s mind, the CED was "the extreme left wing organization of American business . . . the only difference between the men sponsoring this organization and the New Dealers

is that while both believed in a managed economy, the Committee for Economic Development want to do the managing. I am of the opinion this organization has done, and is doing, a great deal of harm."[24]

The end of the Korean War had brought the surplus problem back with a vengeance. There were huge stocks of dairy products, some 800 million bushels of wheat, even more corn. Agricultural historian Gilbert Fite estimated the cost to taxpayers of storage charges alone at $800,000 a day. Surplus crops were being stored "in ships, airplane hangars, and anywhere else that space could be found." Prices of most farm products sagged during Eisenhower's first two years. The farmers' heightened discontent at their increasing cost–price squeeze and irritation at being blamed for high food prices brought further political heat. Congress passed new legislation in 1954 that provided a flexible support, but the amount of flexibility was quite limited because Congress feared farmer retaliation.

Along with the farm legislation itself came another congressional effort, one with profound implications for international grain-trading organizations like Cargill. This was the "Food for Peace" legislation (its full name was the Agricultural Trade Development and Assistance Act) passed by Congress in July 1954. It became known popularly as P.L. 480. The Act combined and extended the use of surplus agricultural products for the furtherance of foreign policy goals. Considerable amounts of these products were to be used for famine relief. Agricultural goods also could be sold to "friendly populations" in any country undergoing a food emergency. The countries would pay in their own currency (most often these were "soft" currencies), and the United States could draw on these funds in the countries to purchase strategic materials, buy military supplies and purchase goods and services in the countries where the funds were held. The funds could also be used to develop new markets for United States farm goods. P.L. 480 was a rousing success right from the start and became a long-term fixture of American farm and foreign policy. That it was a boon to the American grain traders goes without saying.

Cargill's profits in the two crop years 1952–1953 and 1953–1954 were excellent: $4.4 million and just under $4.0 million. Year-end net worth increased to $37.3 million and then to $39.8 million. Apparently the exhortations for sharpened internal "discipline" had been successful. Evidence of better internal control was attested by the fact that total gross sales in 1952–1953 were almost exactly the same as in 1952 ($643 million in 1953 and $642 in 1952). Grain tonnage was up slightly between 1952 and 1953 (from 7.7 million to 8.1 million). Sales did rise more in 1954, at $776 million, and tonnage was up to over 10 million. The Feed Division had continued its solid performance, but the Oil Division posted only small profits in both the years. The stellar contributor for both years was the Grain Division. Feed grain trading profits had continued excellent (oats taking a somewhat lesser role), and winter wheat trading had been outstanding in both years. If 1952 was the Company's "year of discontent," 1953 and 1954 provided a rousing turnaround.

With the John Jr. "charge ahead" mentality back in place, it was to be expected that the physical plant of the Company would expand in those two crop years 1953 and 1954. Delivery of the towboat *Carpolis* had been taken in mid-1952; the *Carpaul* went into service in 1954. The Kerr Gifford acquisition had brought in a number of West Coast terminals. A huge elevator had been built at Port Cargill, too, with a 14-million-bushel capacity. It opened in late 1953. At the same time, the Company began a new backhaul up the Mississippi, making stops when necessary and also going all the way to Port Cargill, with the returning barges carrying blackstrap molasses. The Company's new barges were well suited for this. They were double-compartmented, and the liquid molasses could be put in the lower compartment, with dry cargo above. Coal also continued as a backhaul freight. Later, salt became another major commodity carried back up the rivers.[25]

Farther down the river, a 4.8-million-bushel addition had been constructed at East St. Louis, Illinois. Perhaps most galvanizing of all, a new 2.5-million-bushel terminal being built to Cargill specifications by the Greater Baton Rouge [Louisiana] Port Commission was leased by Cargill, to be opened in July 1955. Gulf shipping had been a problem in this period, with tremendous storage congestion. This would provide Cargill a long-term solution. All around the Gulf ports there were only public terminals, operating on a permit system. Cargill's Baton Rouge facility would be the first private-company location, a tremendous advantage in terms of continuity. With great temerity, the Grain Division had promised the Commitment Committee a throughput of 1.5 million tons a month—18 million tons a year. It seemed like such a mammoth amount then, but almost from the start the terminal exceeded this figure, soon by many times.

Fires disrupted business in other parts of the system. The Wesota, Minnesota, country elevator was seriously damaged in January 1953, and the elevator at Hankinson, North Dakota, was wiped out completely (it had been built about 1910 and had a capacity of 30,000 bushels). The most serious disaster occurred in the next crop year, when, on February 14, 1955, the Minneapolis flax plant exploded. "The shock," said *Cargill News*, "has hit the entire Cargill organization a staggering blow—the worst in our history." Four men were killed outright and 10 others seriously injured. "We have no idea what caused the explosion," wrote Cargill MacMillan, "and we probably never will know." He was terribly upset by "this . . . second big explosion that has occurred in one of our plants during my lifetime." John Jr. wrote his brother a few weeks later: "We have had some comments from the Fire Marshal which might be construed as criticism

but they look more political than real to me. However, the trade certainly are not critical."[26]

There was more excitement in September 1953: a serious incident involving the *Carmac*. The Company's inspection vessel was en route up the Atlantic Coast on its way to the wedding of John Jr.'s younger son, Duncan. John Peterson and his wife were aboard. On the way toward Providence, Rhode Island, the vessel hit Watchhill Reef and promptly sank. John Peterson and the crew were uninjured, but Peterson's wife suffered a broken collar bone. A new inspection vessel, *Carmac II*, a 116-foot craft, was subsequently purchased. It was not altogether seaworthy, particularly for deep-water use and especially after the installation of a heavy air conditioner on its top deck. The vessel was sold, and *Carmac III*, a 142-foot vessel was bought in 1955. The *Carmac III* had its share of trouble, too, for it was hit by a Japanese freighter in fog-shrouded San Francisco Bay in November 1955. The blow was glancing, but the damage was substantial. Repairs were made, and the *Carmac* continued to serve well as the Company's seaborne inspection vessel.[27]

The Company's relations with the government were calm in this period, although after the storage tensions stemming from the Albany and Norris City episodes, the CCC seemed to be chary of putting its grain into storage

Cargill's inspection vessel, Carmac III.

Rear passenger deck, Carmac III.

in Cargill's "big bins." After lengthy meetings in October 1953, relating to the use of the two new terminals at Port Cargill and at East St. Louis, the government officials concluded "that the size of the proposed bins would make it difficult, if not impossible, to turn grain in the event its condition became doubtful." The CCC was further concerned about the inability to segregate two different lots in one large bin.

John Jr., speaking for Cargill, replied that "the 24-year Cargill experience . . . with large bins [showed that] grain kept better in large bins than in small bins. . . . At no time in the past had Cargill ever failed to turn grain belonging to the government or others . . . when such conditioning was indicated." The issue remained unresolved, and John Jr. finally wrote Secretary Benson, arguing that the Cargill experience had shown the Company how to "safely deal with any particular section of a large bin that begins to show a condition problem." He asked for Benson's "good offices," but a subsequent letter from the CCC made it clear that its "Minimum General Specifications" required that bins allow "the turning in full of the largest bin." Cargill's bins did not satisfy this requirement, and the government officials remained unmoved.[28]

Julius Hendel Retires

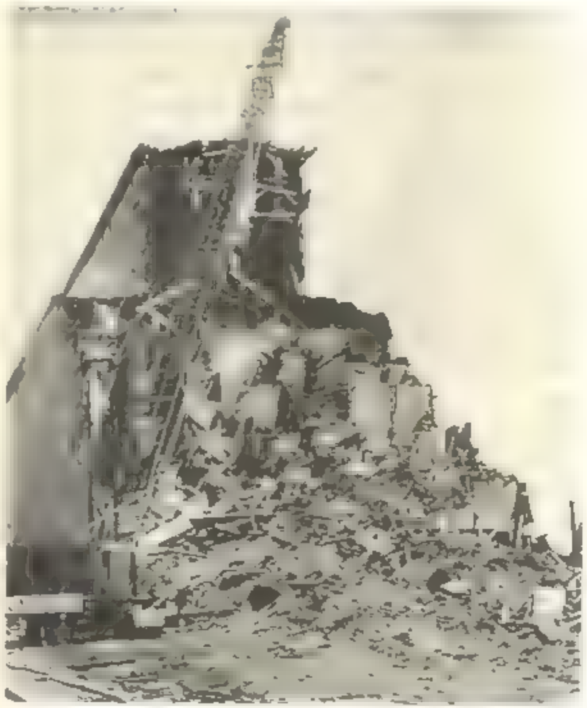
The year 1955 was not as successful as the immediately preceding years. Although the gross sales (at $764 million) just about repeated 1954, and the tonnage handled was almost exactly the same, profitability was off considerably. The final net earnings figure was $2.5 million, down almost $1.5 million. The Feed and Oil divisions were somewhat lower, but most of the drop was in the Grain Division—its $2.2 million contribution to profits in 1954 had sagged to $429,000. John Jr. wrote Austen Cargill in March 1955: "The problem came entirely in the Grain Division . . . this is the time to cry 'wolf' and we are doing so in no uncertain terms. I have just come from a meeting of the Regional Heads and I had a chance to lay it on thick." In the same week, he wrote his brother that the Grain Division "reflects too much complacency." John Peterson seconded this view, commenting to Austen Cargill, "they have shown very little, if any capacity to control the expenses of their outside offices, a number of which are . . . run on the Hollywood style."

John Jr. seemed especially jumpy about bad news at this particular time. He had just finished (in February 1955) dealing with a difficult situation in the Company's Chicago office involving a competitor allegedly pirating Cargill trading secrets. The case involved a broker who had been dealing with Cargill over the previous half dozen years. John Jr. even asked John Savage, Cargill's training director, to develop a program for "indoctrination in withholding from competitors vital trading information." Over the summer, John Jr. several times recorded in his diary being extremely fatigued, and at one point he wrote to himself, "Had a run-in with J.G.P. [Peterson] over his trying [to] write my Board of Trade speech for me at this late date. Quite ashamed of myself for my lack of self-discipline." He constantly tried to reduce his weight even more and in mid-July reported, "Hit a new low in weight" (134¾ lbs). Even his relationships with his brother Cargill seemed off center. He reported in his diary in November 1955: "His European conclusions are certainly at variance from ours here. Disturbed me greatly."

In 1952, when the Grain Division had had another bad period, Julius Hendel had attempted a more direct role with the division. His effort probably had a good deal to do with the better results over the following two years. But Hendel had paid a price for this in heightened antagonism from some in the Grain Division about his incursion. In August 1953, he wrote John Jr. about this: "The attitude of the personnel in the Grain Division, which started on the defensive, repelling the intrusion of top management, softened to a compulsory acquiescence, and at present is tending toward voluntary cooperation. . . . It is natural for line personnel to be promoted to staff positions, but whenever men from top manage-

ment are put in a line position to make decisions and give orders, it is bitterly resented by the younger executives." Perhaps it was not just Hendel who was resented but John Jr. too, for Hendel continued: "To promote loyalty and impart the feeling that employment . . . is a way of life rather than mere gaining of a livelihood, it appears advisable formally to restore full autonomy to the Grain Division. However, informally the president and Mr. Hendel should continue to assist the Grain Division as a temporary and special assignment. . . . Unsolicited advice is unwelcome, but if made difficult to get, it is sought."

Julius Hendel already had had an instance of moving back into the Grain Division in a line capacity, unsuccessfully, to make trades that he himself wanted to manage (the December 1947 wheat futures contracts, mentioned in the preceding chapter). There were other instances in succeeding years where Hendel reversed trades that others under him had made. Hendel also seemed to have been caught in the middle of the differences resulting from the Dwayne Andreas visit to Russia in 1952. Increasingly over the late 1940s and the early 1950s, John Peterson and Terry Morrison had thought and acted in concert. Apparently it was they who had pushed for the Andreas resignation. Hendel also had had a serious



Taking down Elevator E, Duluth, June 1974.

disagreement with John Peterson after the poor performance of the Grain Division in 1952, when Peterson wanted to constrain limits and trading positions more than Hendel did.

Apparently the cumulative effect of all of this caused John Jr. himself to lose confidence in Hendel's leadership of the merchandising activities of the Company. Over the summer of 1955, he and Hendel had a number of discussions about this, and Hendel offered to resign. John Jr. accepted. The record seems clear that the impetus for this was John Jr.'s and that Hendel really did not want to leave. Hendel seemed ambivalent about staying on as a director: "I want to be of continuing service, if I can. . . . I want you to tell me if you want me to continue on as a director. I will be glad to do so, unless certain contingencies arise with which you are familiar, which would make it impossible. However, I would prefer not to unless you think it would be in the better interests of the company for me to continue to serve." Subsequently, Hendel did relinquish his directorship, when he retired on September 1, 1955. He was five years short of the retirement age of 65 but was given full retirement benefits.

Recollections of this early retirement of Julius Hendel sometimes include the inference that Hendel's being Jewish had something to do with it. There was latent anti-Semitism still in Minneapolis at that time (as with many other cities in the country). John Jr. was not totally immune to this. Julius Hendel had been slurred by outsiders more than once in this regard (the story of his entry into the Minneapolis grain exchange being an earlier example). In September 1947, John Jr. had received a two-line "thank you" from a prominent Minneapolis executive, head of one of the city's most important companies. It read as follows: "Thanks for the snapshots of the trip on the *Carmac*. Am delighted to have these even though there was apparently a 'Jewish' gentleman aboard." Although these kinds of remarks were not uncommon, it seems unlikely that John Jr. harbored any such feelings directly about Hendel. The two had grown up in the business together, had participated in hundreds of key decisions and had taught each other a great deal. Indeed, each had mentored the other—Julius on trading, John Jr. on strategy.

After Hendel retired, almost immediately he received an offer from a rival trading house. He came back to the Company to tell John Jr. of the proposal. John Jr. said, in effect, "Fine, but not with my blessing unless it is as a director, not a trader." John Jr. apparently felt that having Hendel as a competitor on the trading side could be detrimental to Cargill. When Hendel went back to the trading house with only a partial agreement from Cargill—to be a director—he was turned down. A year later, another firm in the industry, a farm services cooperative, offered Hendel a post on a part-time basis as an economic consultant. In this case, John Jr. approved, writing Hendel: "We have always looked upon G.L.F. as a friendly customer rather than as a competitor and we regard it as a great compliment, not only to yourself, but to us as well that they would like to engage you on this basis."

The retirement of Hendel marked the end of a special era. Hendel was considered to be the "dean of grain trading" and was seen as this even after his retirement. He had pioneered in Cargill's grain laboratory in the 1920s and had introduced scientific feed mixing in the 1940s. The renowned Cargill training program had been introduced by him and was nurtured by him for many years. According to a later observation by Harvard's Professor Ray Goldberg, Hendel's classes had "Cargillized the industry." The president of the Federal Reserve Bank of Minneapolis, Oliver S. Powell, wrote John Jr. after the latter's banquet for Hendel in September 1955 that it was "a real thrill" to hear of Hendel's impressive career. Probably everyone at Cargill would have echoed Powell's closing comment: "I am sure that Julius has made a real contribution to the success of your firm."[29]

Location unknown

CHAPTER EIGHTEEN

Corporate Leadership, Management Losses

The second half of the decade of the 1950s, roughly coinciding with Dwight Eisenhower's second term in office (1956–1960), had been good for the country and for the grain trade but not as positive for the farmer. There had been a sharp business recession in the first half of 1958 but a recovery by the end of that year. Excluding this, the years 1955–1959 had produced solid economic growth for the nation. It was in this period that the Russians sent up Sputnik I, the first earth satellite. Americans were stunned by the Soviets' technological progress, and a massive new U.S. initiative was mounted to regain superiority in space technology. The decade ended on a strong note.

Agriculture's unabated bout with surpluses continued. Greater productivity set records in corn and soybean production, and wheat also was having a series of bountiful crops. There was a heroic attempt to insulate some of this production from commercial channels through the P.L. 480 "Food For Peace" shipments, which amounted to a total value of over $1 billion each year from 1956 into the next decade. Added to this was the "soil bank" plan in the Agricultural Act of 1956, which sought to cut supplies of the six basic crops by substantial reductions in acres planted. However, as economist Ross Robertson put it, "the plan made use of a phony conservation handle and at the same time tried to avoid the appearance of controlling farm decisions. The results were unbelievably bad. Carry-overs went right on mounting, reaching astronomic heights in 1961. . . . Ezra Taft Benson put all his Mormon zeal into an effort to become the most unpopular Secretary of Agriculture in history."[1]

So despite every effort, farm prices sagged for many commodities. Soybean prices fell some, wheat and corn prices more substantially. Farmers found themselves once again attacked for high food prices, "getting fat on the public dole," while at the same time receiving less for their product and paying more for their inputs. The political clout of the farm bloc seemed to lessen as its constituent pieces began to splinter.

For the grain trade, however, this was a satisfying period. Storage of CCC grain remained high (the value of the commodities owned by the CCC stayed above $4.5 billion all through the period 1955–1959 and was up to $6 billion in 1960). The P.L. 480 shipments were substantial, and the overall international grain trade stayed strong. Cargill prospered during this time, indeed, doing very well in the year 1959 (when it set sales and income records). This second half of the 1950s also saw significant Company expansion. The prestigious "*Fortune* Five Hundred" directory did not list privately held companies. If it had, Cargill's sales in 1959 ($1.089 billion) would have put it in place number 34 for all listed companies, just after American Can Company. The Company's assets ($185.4 million) would have followed Granite City Steel at position 186. In invested capital, Cargill would have been number 315; in profitability, 243; and in number of employees, 375. Perhaps *Fortune*'s "Fifty Largest Merchandising Firms" would have been more comparable for measuring Cargill; if so, the Company would have ranked 7th in sales, 19th in assets, 32nd in invested capital. Cargill's figure for the important comparative measure of return on invested capital was 16.4 percent that year (the Company had recorded double figures in six years of the decade); with four other companies, it would have ranked at 69 in the *Fortune* Five Hundred and would have been in fifth place among the merchandising firms.[2] This chapter analyzes the six-year period 1955–1960.

How to Expand?

By January 1956, a major rebound in Company fortunes had taken place. The Grain Division, which had faltered so badly in profitability in the previous year, had traded over 10.3 million tons of grain by the end of the crop year and contributed almost $2.6 million in profits, a full half million dollars over its budget. The Feed Division and Vegetable Oil Division had both done reasonably well, and the combined profits for the Company were over $5.5 million, the third best in the Company's history. The total merchandised grains had risen from 8.7 million tons to 9.7 million. This increase, however, had produced approximately the same sales figure as in the crop year ending May 31, 1955, so the dollar revenue per ton had fallen. Nevertheless, the healthy profitability boded well for the future.

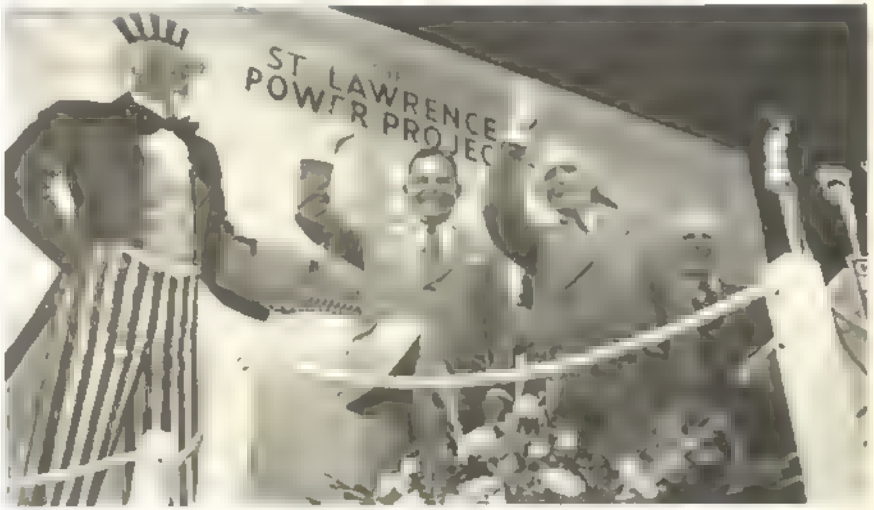
There were some unfulfilled opportunities, however, and these troubled top management. John Jr. wrote in April 1956: "We are all terribly upset over missing out on the big volume export business." He saw the problem particularly as inadequate ocean transportation, "which means we have to step on the gas as far as marine equipment is concerned . . . we have some 13 million dollars worth of work we would like to undertake as soon as possible." Inasmuch as this seemed too much for the Company to absorb all at once, "it may be that we can finance some marine construction out-

side of Cargill." Here he was thinking of a family-owned business, similar to the Minnesota River Company. However, the amounts now were much larger, and there was not as much enthusiasm for this form of ownership among family and senior management as before.

The international side of the business obsessed John Jr. at this time. For one, he thought the Caribbean had great potential. His longtime ownership of land in Jamaica had led him into some commercial production of copra and sugarcane there. Further, he had become convinced that Cuban sugarcane could be brought to the United States for processing at a profit, and he had already sent a personal representative there to search out supplies, perhaps also to buy sugarcane land. The *Carport* and its barge already had been used for coastal shipping, in both the Gulf of Mexico and the Atlantic. On one of these voyages, in September 1956, the *Carport* was caught in Hurricane Flossie. One man was washed overboard, and a second, who attempted a rescue, also was lost. If the *Carport* was to be used for the Cuban trade on a regular basis, new, larger (6,000-ton) barges would be needed. Indeed, John Jr. advocated a 17,500-ton barge as even more productive.

Norfolk, the St. Lawrence Seaway

For intercoastal shipping and especially for any export shipping to Europe, an Atlantic Coast terminal of substantial size, much larger than the



Dedication of the St. Lawrence River Project by New York Governor Thomas E. Dewey (left) and Canadian Premier Louis St. Laurent, Cornwall, Ontario, August 1954 (The Bettmann Archive)

250,000-bushel leased facility at Mt. Clare (Baltimore) would be needed. In March 1956, a 2,250,000-bushel elevator at Norfolk was authorized by the board at a cost estimated to be just over $3 million. At the dedication in July 1957, John Jr. gave the welcoming speech and in the process took some swipes at government policy for intruding into the private grain trade: "I am a fourth-generation grain merchant [a slight exaggeration—his was the third!] and those of us in the grain trade for a long time fail to see how these newcomers in the field, such as these bureaucrats, can hope to do as well as we" (later, Hubert H. Humphrey, the senator from Minnesota had the speech reprinted in the *Congressional Record*). John Jr., in his diary, called the new terminal, "impressive but expensive," as it had overrun budget.[3]

One rationale for the Norfolk decision was the anticipatory belief, expressed in an April 1956 memorandum, that the Albany terminal "will be through in 3 years except as to its value as pure storage" because of the scheduled opening of the St. Lawrence Seaway in 1959. The Seaway *was* going to change everything. It was true that its 27-foot draft would not let larger ocean shipping through, but this draft would allow the lakers to go all the way out to the mouth of the St. Lawrence. In August 1955, Cargill purchased (at a total cost of $310,000) three of these lakers—all older bottoms—the *Harry R. Jones*, the *Hemlock* and the *Calumet*, each with a capacity of about 7,000 tons. Their age and basic construction did not make them eligible as oceangoing vessels, but they would be able to move right through the new Seaway to the St. Lawrence mouth.

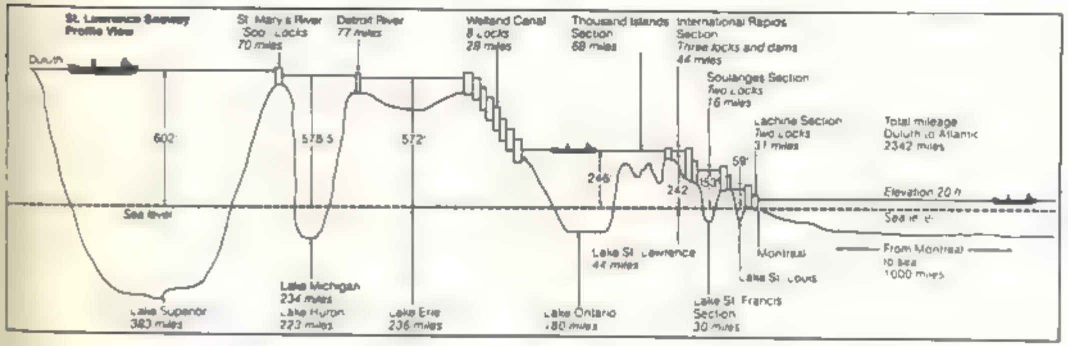
The inference was clear—if Cargill had a transshipment point near the mouth of the St. Lawrence, a very efficient transfer could be made to oceangoing vessels calling at such a port (i.e., it would obviate the past practice of a smaller "canaler" for movement from the Great Lakes to Montreal and the mouth). Preliminary studies in early 1956 centered on a location at Seven Islands, on the Quebec North Shore, and the Cargill board of directors made an inspection trip on *Carmac III*, from Montreal to the Seven Islands vicinity, to observe firsthand possible port sites. A linking point was being sought both for the oceangoing vessels and for a backhaul by the lakers, to carry iron ore back to the steel companies at Great Lakes ports. New deposits of iron ore were being tapped by the steel companies in northern Quebec and Labrador, and Seven Islands was to become a shipping point. Cargill made contact with one of these corporations, the M. A. Hanna Company. Its ore shipping plans called for shipment of 12 million tons back up the St. Lawrence, with the existing facilities capable of loading 8,000 tons of ore per hour, dumping two 100-ton cars every five seconds. It was a particularly exciting idea for Cargill. Not only would there be a ready backhaul, but, as John Jr. reported, "savings in transportation [on outgoing grain] should be 5¢ a bushel." The choice of Hanna

seemed particularly propitious, inasmuch as the steel company also had property in Rotterdam and was contemplating developing a port there for the use of very large ore carriers (30,000 to 40,000 tons) out of the St. Lawrence. There could be dock space there for Cargill, too.

As Cargill's analysis continued through 1957, an alternative site for the grain facility was preferred; this was at Baie Comeau, also on the Quebec North Shore, a little over 100 miles upriver from Seven Islands. This port had been brought into being earlier to ship wood pulp for newsprint, specifically for the *Chicago Tribune*. The urgency engendered by the scheduled Seaway opening in 1958 now brought Cargill to a commitment to build an 11,860,000-bushel elevator at Baie Comeau at an estimated cost of over $13 million. By all measures this was the largest single financial commitment ever made by the Company and one of its most important management decisions ever.[4]

The imminent Seaway opening triggered other moves by the Company. In early 1956 it decided to build five identical large-bin, million-bushel subterminals at Breckenridge and Crookston, Minnesota, and at Minot,

The Cargill Board of Directors visit to Seven Islands, Quebec, on M.V. Carmac III, *1956. Seated, left to right, Austen Cargill, John MacMillan, Jr., John Peterson, Cargill MacMillan; standing, Bert Egermayer, Erv Kelm, Fred Seed, Jim Dorsey, Bob Woodworth; kneeling, Jim North, Terry Morrison.*



Schematic diagram of the St. Lawrence Seaway.

Carrington and Dickinson, North Dakota. These would be erected as quickly as possible and in time to handle the 1956 crop. "As a consolidation proposition," an internal memorandum commented, "it strengthens our Duluth-Superior setup and builds for the day when the St. Lawrence Seaway is a reality." At the same time, a small new lakeside elevator was built at Michigan City, Indiana, also to be operational for the 1956 crop. Its capacity was only 100,000 bushels; but just as the size of the river terminals at Ottawa and Havana, Illinois, had belied their importance, so too would this one, for it was designed particularly to serve trucks from that area, which had been going into Chicago to competitor terminals.[5]

Thus, the St. Lawrence Seaway was to be a linchpin for a new era in ocean shipments from North America. Huge oceangoing ships would now be able to dock at Baie Comeau to load efficiently and quickly with the grain that had been sent out to Baie Comeau by fleets of lakers.

Expanding to Europe

It was this strategic prospect that so excited John Jr. and turned him single-mindedly toward increasing Company ocean-shipping capacity. A critical part of the equation was the unloading of the grain in Europe and its subsequent merchandising there. Substantial amounts of grain also were going to Asia, particularly the P.L. 480 concessionary shipments to India, Pakistan and other developing countries. Cargill had little past presence in Asia and now decided to purchase for the account of Tradax the commodities department of its longtime agent, Andrew Weir & Co. (Tokyo) Ltd. (in the process inheriting some remunerative long-term coal-shipping contracts).

Europe, however, was the real focus. The great centers of grain trading were well established there, and the aggressive, strong European grain

trading companies had already challenged Cargill into competing on their own ground. The establishment of Cargill Internacional had been the first step, but its trading operation in Montreal had proved out of the mainstream. So the Montreal office was transferred to Europe in the spring of 1956. Tradax Belgique was already in Antwerp and was momentarily a possibility as a site, but then the three families (Austen Cargill and John Jr. and Cargill MacMillan) decided upon Switzerland. Already there were links there, both with the newly established family Salevia Foundation (one of the owners of Cargill Internacional) and with some private residence property, purchased for Edna MacMillan at an earlier date. Both the Foundation and the residences were situated in Geneva. After brief consideration of Zurich as a possible alternative site, Geneva was chosen for what became Tradax Geneve S.A. The Cargill lawyer handling the negotiations, Donald Levin, had visited the Swiss federal and cantonal tax authorities in February 1956 to work out an agreement as to just how Tradax Geneve would be taxed, given its relationship to the Panamanian parent company, Cargill Internacional. From these sessions, Tradax was able to accurately measure its expected tax burden in Switzerland. For the immediate period, it was to be SFR 50,000 per year, but both Swiss agencies left open the question of later review if Tradax business changed.

Tradax Geneve promised to be a complex and demanding management task, and the choice of its two leaders now had to be made. The chief executive officer was to be Walter Gage. In one sense, this was a surprising choice inasmuch as he had *no* international experience. Gage was highly regarded among senior management. He had joined the Company in 1936 as a merchant and had also worked for Ed Grimes in the Washington office and been a branch manager (at Buffalo). Then he had gone to Minneapolis to assume various posts in the Grain Division, finally taking the important coordinating post as head of all of the branch operations. His choice as head of Tradax Geneve was seen by people around the Company as putting a "first-stringer" into the job.

The other member of the two-person top management cadre was an even greater surprise. It was none other than John Peterson. Although not yet retired from Cargill, Incorporated, Peterson was 65 years old. A pull-back from active management was going to be required. He had talked of early retirement. With Tradex Geneve in a financial situation that was going to be tenuous at best, it would need a wise and diplomatic emissary to the European banks. The operations of Tradax Montreal had been marginally successful in its 18 months of operation (John Peterson criticized it, however, "on the sense that the net profit in relation to volume has been ridiculously small"). Even after adding in its small profit, it was bringing a painfully small amount of working capital with it to Geneva. Peterson had a deserved reputation at Cargill of being a master at cajoling bankers,

and his involvement in the Swiss company was seen as a stroke of genius by some observers. He soon moved to Geneva as chairman of the board of Tradax.

Gage's role was ambiguous. He was to be an independent, entrepreneurial chief executive officer, freewheeling in a complex multinational business environment, yet was to fit himself and the trades of his group into the overall policy and specific trading plans of Cargill, Incorporated. Gage wanted decision making centralized in his hands, and this sometimes led to strained feelings between the Geneva office and the London office. Mickey Cross, for example, had many years of experience in trading ocean freight. Yet the Geneva traders more than once took issue with Cross and proceeded independently, which led to some mutual antagonism.

In October 1956, Israeli forces suddenly invaded Egypt, soon overrunning the Suez Canal and effectively shutting off shipping through that vital artery Tradax, showing more evidence of its willingness to speculate, earlier had developed a substantial long position in freight. After the hostilities began, freight charter prices skyrocketed, and Tradax made substantial profits. These were mainly Geneva contracts rather than London contracts of Mickey Cross. While Cross might not have objected to the Geneva positions, nevertheless the success of the charter contracts seemed to make the Geneva group even more imperious about their own abilities in trading ocean freight.

John Peterson's place in the Geneva spectrum was also ambiguous. He performed essentially the same catalytic role as he had for Cargill in 1933, when he engineered the banking arrangements that brought the Company through its "banking crisis." Cargill Internacional had been given that pitifully small capital bankroll to perform the huge task the Geneva operation faced. Cargill Securities Company had put in a small additional amount, but the Tradax Geneve balance sheet would not have impressed even a small-town banker in rural Minnesota. Yet Tradax needed major working capital funds to engage in the type of broad-ranging trading it contemplated.

Peterson seemed to have a knack with banks in situations like this and was successful once again. With Gage, he made visits to a selected list of important banking institutions. They particularly focused on two key banks, one in Switzerland and one in Germany. In these contacts his approach was that one must not view the Tradax balance sheet literally but as a piece of a larger picture, one backed by the reputation and financial strength of Cargill, Incorporated. This was a delicate balancing act, for it also had to be made clear that Tradax was an independent entity, at arm's length from Minneapolis. Using his most gracious and expansive banker skills, Peterson was able to insinuate into the conversations that "Cargill had never let a subsidiary go bankrupt, and while Tradax was not a subsid-

iary, Cargill had never allowed a related company to go bad." Both the Swiss and German bankers understood this veiled distinction, and to the surprise of no one Tradax got its lines of credit from both.

Peterson did not disavow the subsequent stories of another "Peterson coup with the bankers." He seemed unable to resist calling attention to his self-appointed role as "savior" of Cargill. As he retired from Cargill, Incorporated, he wrote Austen Cargill: "If I bow myself completely out of Cargill, I don't know what the repercussions of that might be among our banking friends, and I feel sure some of them may not be too happy."

The Montreal office was now closed down in stages, with most of the personnel moving to Geneva and several being assigned to a new Tradax Geneve office in New York City, headed by Tom Connoly. By the end of the year, Gage and Peterson had with them in Geneva Bob Hatch from Montreal; Pearsall Helms (who had been the manager at the Wilson, North Carolina, operations); W. Duncan MacMillan, John Jr.'s younger son; and several other young men. The latter included three young British graduates, all from major universities in England: Leonard Alderson, Kenneth Spence and, later, Allen Blair. They became known as the "English Mafia." In addition, Peter Brees, a Belgian national, joined the management cadre, working out of Antwerp. A number of years later, when Tradax had a heavy influx of Dutch, the term became the "Dutch Mafia." Gage also established a Hamburg, Germany, office, assigning Charles Bachman there. The Antwerp office was headed by Brewster (Stu) Hanson, with Brees soon moving there. In London, Michael Cross had left the Ross T. Smyth Group to become Cargill's British head. With this cadre and others hired in the early months, Gage and Peterson had their own independent management team in place.[6]

Relationship Tensions

"Independent" was the operative term in those days, in order to establish the critically important legal separation of Cargill Internacional and the Tradaxes from Cargill, Incorporated. In the Montreal operation, independence had been difficult to achieve. John Peterson wrote just after Tradax Geneve opened: "Montreal and Minneapolis were just too near together by telephone. . . . Montreal, instead of operating under a contract it had with its parent company, was operating as if it were a management company—thus confusing the entire set-up."

An important memorandum in May 1956 attempted to spell out this relationship more explicitly: "It is emphasized that the Tradax companies are organizationally and functionally separate and independent. . . . Communications between the two organizations must be restricted to the following: (a) business proposed or consummated between the two organizations; (b) information, gossip, evaluation, etc. which any independent company might exchange with one another; (c) accounting and forwarding instructions and information relating to business done or contemplated through or with Tradax, Incorporated." Cargill, Incorporated, executives were not to give any "direction" to Tradax; dealings with the latter were to be as with an independent company. At the same time, the very reason for Tradax existence was to enhance the international trading of Cargill, Incorporated. There were going to be innumerable links between the two, advice, coordinated efforts, buying and selling arrangements, with each paying the other for services rendered on a regular commercial basis.

Problems about this concept now multiplied with the far more complex role assumed by Tradax Geneve (and Tradax New York). The knotty question of Tradax open positions and limits, already an irritant from the Montreal experience, continued as a sore spot. Earlier, Erv Kelm had stated the linked hedging policy of Geneva and Minneapolis in a memorandum to John Jr.: "Cargill Internacional is setting itself up to do a world trade in grains and commodities and should be able at a fee of about 1/4¢ per bushel to keep short 8–10 million dollars for the risk of Incorporated," to be established "at the instruction of Incorporated but after consultation with Cargill Internacional." In October 1956, Gage wrote Peterson that he was "long a fair amount of grain," suggesting that "practically speaking, no limit be placed on our position in those grains . . . this business is not and cannot be done as a continuing series of cross hedges but rather a continuing series of speculations . . . for the most part the cross hedges that are available through transactions and cash commodities in international trades, are not really cross hedges at all but two sided speculations." Kelm opposed Gage on this. While he agreed that "the only large-scale sensitive markets are world commodity markets," he worried about the open positions. "I think what Walter means by his talk of 'a series of speculations,' " Kelm hopefully stated, "is that he should take some unhedged position in cheaper grains in addition to a cross-hedged position and does not mean to infer that there is no alternative to wholesale speculation."

Gage did intend mainly speculation, however, and Peterson sided with him, not because of Gage's philosophy but because the amounts involved were small at this time. Nevertheless, he lectured Gage: "Human experience and the theory of capital conservation seem to be against open positions. Human experience seems to approve the observation that when crashes like that of February 1948 occur, cross hedges pay off, but in the interim, insurance against such a contingency may be costly. Capital . . . seems to be willing to bear such costs [but] unwilling to be engaged in excessive open positions."[7]

John Jr., eager to increase the throughput of Cargill, Incorporated, grain

into international trading, worried that the amount of grain moving through the Company's Baton Rouge and Albany terminals was not what it should be, and he urged Gage to keep Minneapolis informed of all Tradax bids. Gage wrote a testy letter back, pointing out that it *was* in Tradax's interest to trade with Cargill but that "it requires not only complete co-operation between our two companies but also from European buyers and the last is beyond our ability to control. . . . We rarely offer at anything over Cargill's price to us and frequently at less simply because competition forces it." Nevertheless it was true that Gage was very profit-oriented—as one of the "English Mafia" put it, "he was extremely bloody minded." Gage constantly emphasized that Tradax had a number of customers and Cargill was only one of them.

One of the early members of the Geneva group put the tensions about sales between Tradax and the Minneapolis merchants this way: "It was almost worse than trading with third parties—you were afraid the other side was not telling you everything you needed to know. If you learned of a new bullish factor, you made the trades, *then* you told. There were many shouting matches and terrible telexes."

While the Gage notion of unlimited "limits" was anathema to the Cargill executives, the brightening, indeed bouyant conditions in the United States over the summer and fall of 1956 gave the Minneapolis group a more entrepreneurial approach. In the Finance Committee's report to the directors in May 1956, a special appendix had been attached concerning limits, and the Committee had concluded that the Grain Division and Vegetable Oil Division limits "could well be reviewed, and to good advantage." A "Special Committee" was established, with Kelm as chair and Fred Seed and Bob Diercks as members. The committee, rather than concentrating on the limits, recommended that it be given a "capital fund" for taking advantage of seasonal market trends. Even here "outright long or short positions are avoided," and the trading positions were to be "made on a statistical basis, rather than on a basis of human judgment." In other words, trading was to be by previously established formulas. These were to be mostly spreads; Kelm reported to John Jr. in February 1957 that the " 'S' Account should have a spread or two on its books at least most of the time." Thus, the Gage advocacy of speculative positions did not seem as far out of line with the Minneapolis beliefs as it might have been at an earlier period.[8]

By the end of the calendar year 1956, Tradax would have almost a full year of trading from Geneva; by November 30, 1956, they reported a profit of $877,000, with all of their subsidiaries in the black. John Jr., skeptical, wrote Peterson, who was vacationing in Jamaica in January 1957: "Kelm and I are not too sure that, in one sense, the figures are fictitious. We suspect that they may have brought some of their long freight to the market. In the case of open freight, I think the principle of cost or market (whichever is lower) should be applied."

It was true that the Tradax situation made for complicated accounting concerns. Tradax was trading in many currencies all over the world, was buying and selling short-term and long-term ocean freight, was even engaging in some barter. Therefore it was difficult to get a handle on just where Tradax stood at a particular moment. This seeming imprecision often led to disputes with Minneapolis, with the latter group believing on more than one occasion that Tradax was overstating its profits. This related directly to the issue of bonuses, a particularly sensitive issue. Tradax did not yet have a formalized executive compensation plan. Peterson, calling the Tradax group the "forgotten men," had been able to persuade Cargill MacMillan to authorize substantial bonuses, with both salaries and bonuses to be decided by Gage and Peterson. The Minneapolis group more than once was irritated by the size of these Tradax management bonuses.

Thus, there was a growing mistrust between Minneapolis and Geneva. Minneapolis traders seemed particularly exercised about the Tradax New York office, which they felt did not communicate openly about the state of the market in Europe and the Tradax plans there. John Peterson, embarrassed about this, wrote the Tradax representative in New York to "immediately investigate" the complaints. Finally, in August 1957, the Tradax New York office was closed. All of the people remained in place but became Cargill, Incorporated, personnel.

A considerable part of this friction between Geneva and Minneapolis was inevitable, given the strikingly different situations for the two offices. The Geneva ethos was highly entrepreneurial, and Gage and his young group saw themselves as being in a "fast track" business environment, one that begged for aggressive risk-taking and wide-ranging business contacts. The Geneva group worked very long hours (a pattern that worried the Minneapolis executives, who frequently commented on this). If Montreal seemed a grain trade backwater, Geneva was certainly not. The first year of Tradax Geneve had been a controversial but spectacular one.[9]

John Jr. made two long inspection trips to Europe, one in April–May 1956 and the other in April 1957. For both, the *Carmac* was deadheaded to Europe so that he and his party could visit the European ports where Tradax might want grain trading facilities (and, incidentally, have John Jr. served food of his own choice by his own steward). The 1956 trip was a euphoric one, taken just at the start of Tradax Geneve. Even though Dutch newspapers treated the *Carmac* stop there as a visit by a millionaire in his yacht ("the newspapers misrepresented our trip shamefully, it was a business trip and we are salaried employees of the company," John Jr. wrote a Dutch friend), the trip was a resounding success. John Jr. returned "highly pleased with our present European personnel" and full of new plans.

By the time of the spring 1957 visit, however, John Jr. was more critical of the Geneva group. The softening of time charter rates had caught Tradax with exposed long freight (ocean shipping) positions. There were also difficulties with grain trading that spring. John Jr. wrote Austen Cargill in April 1957: "The boys made some serious mistakes in that they did not give enough allowance for the impact of Southern Hemisphere grains and they took quite a trimming on the premiums of their long North American grains." Apparently John Jr. came over with a chip on his shoulder, believing that many of his views had been ignored by Geneva. He wrote in his diary, "Gage clearly doesn't want us in Europe!" Taking umbrage at this, he wrote Gage a waspish letter: "I think I have some very worth-while ideas in re the growth and development of Tradax, which is the basic reason for my making the trip—which is not easy for me to do. I think my trip would be wasted unless I can obtain the undivided attention of you and your staff . . . as you know, the family look to me as the Operating Head of our enterprises, and I simply have not been kept properly posted on what was going on."

On his return, John Jr. still seemed irascible. In a sharply worded memorandum he commented on Gage: "WALTER is overloading himself by not delegating enough. He is apparently his own BOSS TRADER. We never considered TRADING to be his forte . . . he should appoint a head merchant . . . and then make sure he does not exceed the limits assigned him." John Jr. wanted a full-blown freight department, worrying that the Tradax merchants were trading freight too much on a short-term basis. He complained once more of the long hours at the office (which he felt were ineffective); he wrote his brother: "Walter resents my accusation that he is running a sweat shop, and insists that everyone just loves working 14 hours a day." He also faulted the group for "a bad case of telephonitis," not taking full advantage of the wire system.

A European Port Terminal, Ocean Ships

From the 1956 trip, John Jr. pushed for Cargill's own port facilities in Europe and Cargill's own ships to reach them. "Grain is moved in small, inefficient sized vessels," he wrote on May 18, 1956, "in marked contrast to the movement of ore and petroleum. There are no storage facilities of consequence in European ports . . . discharge is slow and storage at destination frightfully expensive." Except for a "few vessels owned by Dreyfus, Continental, & Andre" none of the shippers had their own bottoms. In brief, he concluded, "THE FIELD IS WIDE OPEN."

On the basis of his judgments from this 1956 trip, John Jr. proposed that Cargill build storage and handling facilities "in 4 ports in the following order: (1) Rotterdam (2) Antwerp (3) Hamburg (4) Liverpool." Later, similar facilities could be obtained in London, Lisbon and Sicily. In turn, Tradax would begin aggressive ocean shipping chartering, including the encouraging of future time charters in ships built to Tradax specifications and then leased.

John Jr. had particularly pressed for the Rotterdam office and elevator. He felt that the Geneva group was "stalling" on both. In addition, he wanted Tradax to investigate the building of three 5,000-ton self-unloading coastal vessels and two or three small tugs, also for European ports. Cargill would also develop plans for three larger, 14-knot, oceangoing dry-cargo carriers, to operate out of Baie Comeau, Norfolk and Baton Rouge.

From 1957 through 1959, John Jr. went through several versions of plans relating to these oceangoing vessels. An oceangoing barge carrier still intrigued him very much, and a number of his plans were built around this notion. By September 1957, John Jr. proposed a trip to Asia to investigate further Tradax links there and, particularly, to discuss shipbuilding possibilities with Japanese shipbuilding companies.

Kelm had proposed feed mills abroad (he first suggested Mexico), and the Oil Division already had indicated interest in possible plants in Europe. Walter Gage and John Peterson seemed always lukewarm about such plans. Peterson put their joint views succinctly in a letter to John Jr.: "As to the investment in various types of property throughout the world, I have no doubt that if one had unlimited funds for investment one could make such suitable investments that would prove advantageous . . . however, we in Tradax are confronted with a proposition, namely we are a trading organization and as a trading organization we need immediate tools which I like to think of in terms of things that come first, namely money in the business to justify credit." Peterson did agree that Tradax needed "suitable ships . . . Tradax expects to own ships and perhaps many ships. The only thing uncertain about this bit of optimism is the time when these things shall occur. My theory, therefore, is to continue to do business with the tools we have, keep whatever money we make in the business and dream about the happier days to come to the poor Greeks and others engaged in shipping business."

There continued to be ambivalence from Minneapolis over just how much influence to exert on Geneva in terms of the latter's trades. In the spring of 1958, for example, Geneva had problems controlling some barley trades by Stuart Allan in Argentina, where he had been posted by Tradax as their manager. Gage, when queried by Kelm about the losses that had ensued, reacted with irritation, and Peterson defended him: "Alas, that we should be engaged in a trading business where margins to justify risk turn out to be crocodile tears and empty phraseology." Kelm wrote a diplo-

matic letter back to Peterson: "It appears to me that Walter has misinterpreted the purpose of my letter . . . regarding our unfortunate happenings in the Argentine. My letter was not to place the blame for the situation on any one. We fully realize the difficulties under which Stuart Allan has been operating . . . if anything, the blame for allowing him to take such a large position is squarely here." Once again, this seemed to beg the question about who was calling the shots—why should Minneapolis be held accountable for a Geneva decision?

John Jr.'s expansive plans brought concern to his colleagues in Minneapolis, especially regarding the financing of these ideas. By October 1956, the Finance Committee had decided that no major commitments for capital expenditures be made "beyond those reasonably necessary," and in a special board meeting the directors elected to vote a formal statement to that effect, which was not their usual approach. By early 1957, money was tightening, and Albert Egermayer, who had assumed John Peterson's role as Cargill's banking contact, reported that "there has been a certain amount of talk coming from our banking friends with respect to our bank balances. For the most part, it has been in the nature of hinting, but in two or three instances rather direct approaches have been made."

Egermayer then surprised everyone with an intriguing insight about John Peterson's long-standing arrangement with the Chase National Bank. Egermayer questioned its inflexibility: "The company has paid 1/4% over the prime rate throughout the long period of relatively plentiful money, recently ended, when banks were much more interested in loans than in balances." Egermayer implied that the payment of the 1/4 percent over prime could be justified as a policy only in times when money was tight.

For years, Peterson unwaveringly had paid this premium to the Chase. Some in the Company felt this was mostly Peterson's largess, tendered because of his cozy relationship with his old bank. There may have been some of this. Even after his retirement from Cargill, Peterson maintained his partly deferential, partly conspiratorial role with Hugo Scheuermann, writing him in January 1955: "It has always been a source of the greatest pleasure to go back into the Chase and always be treated as if I was a graduate in good standing. . . . I can conceive of nothing lacking in our combination that has been so productive for our mutual institutions." When Scheuermann died two years later, Peterson persuaded the Cargill Foundation to contribute $5,000 to a New Jersey hospital in his memory (a sum that Cargill MacMillan objected to).

With business both in Minneapolis and Geneva not as good in the spring of 1957 as the previous year, John Jr. agreed that "we have to pull in our horns and minimize our capital expenditures" and suggested that several projects be postponed. But, he maintained, "I do not think we should let anything interfere with the Seven Islands and Rotterdam plans."[10]

A Fresh Public Relations Approach

Cargill's Oats Case had caused bad publicity for the Company. The *Time* magazine article "Wild Oats" in May 1954 had talked of the Company's "shenanigans on the commodity exchanges." Senator Paul Douglas had identified Cargill as "the largest dealer and speculator in the world"; Senator William Jenner described the Company as an "international speculator who reaped millions of dollars of profits by forcing American oat prices down with Canadian oats." Further, all of the litigation and its attendant publicity in the 1952–1954 period had produced an unexpected fallout—a steady deterioration of the Company's influence in government, particularly with the Department of Agriculture.

Bob Woodworth, who had held the post of vice president in charge of public relations, urged the board in early 1956 to authorize a quite substantial sum of money to hire an outside public relations counsel, one of the outstanding firms in the country, Carl Byoir & Associates. John Jr. wrote John Peterson: "We did not feel it could wait . . . it is expensive but I think the only thing we could do . . . our Public Relations people estimate that the annual cost of this will be $150,000. This figure staggered me when first presented, but I am satisfied that we just cannot afford not to try it for a while at least." Peterson, still on the Cargill board at that time, opposed it, but the board finally voted the amount.

The responsibility at the Company for the new public affairs effort was given to a young Cargill lawyer, William R. Pearce. With the help of the Byoir organization, plans moved quickly and within weeks Pearce and his colleagues had the outlines of a comprehensive program. In the Byoir group's preliminary study, they had collected and photostated every reference to the Company that had appeared in three of the nation's leading newspapers over the entire period 1940–1956. As an internal memorandum put it, "of the many references turned up, only two were positive . . . all of the others . . . contributed to the notion that we were (1) a large speculator, (2) constantly involved in legal difficulties . . . and (3) making unconscionable profits at the expense of producers and consumers." The Byoir group emphasized that Cargill's dynamic, innovative nature was its greatest asset, "a paradox in view of the difficulty it has caused us with the trade." Soon news releases, picture features and other media contacts were put in the hands of the media emphasizing the set of strengths that Cargill brought to the marketplace.

It did not take long, however, for John Jr.'s instinctive secretiveness and desire to stay out of the limelight to reassert itself. Just after the first of the year, 1957, a Byoir-written news release reported that the Company had "handled a record volume of grain" since the previous June and that the

total by the end of the crop year in May "may well exceed half a billion bushels." John Jr., in Jamaica for his winter vacation, wrote an irate letter to Cargill MacMillan, "This makes me see red. . . . If there is any more of this we will make an absolutely clean sweep in Public Relations. Please issue an *ultimatum*. . . . I am HOT." Cargill MacMillan wrote back: "I just don't know what to say about your letter of January tenth in which you nearly rupture a blood vessel over a January second press release. . . . I think Byoir is doing a very valuable job if only from the effect that it is having on the morale of our own organization. . . . It is helpful to our own people to feel that, for a change, they are getting good publicity instead of bad."

John Jr. not only failed to take this advice but continued sending critical missives to Minneapolis, not just about public relations but on other matters, too. Finally, in mid-February, Cargill MacMillan wrote his brother: "For heavens sake, stop needling everybody or we won't have any organization left. The best job ever turned in is simply being met by a stream of querulous letters from Jamaica. I am very serious—we very nearly lost Ray King and I am fearful of three others more important than King." John Jr. attached his brother's note to his diary page and penned a defiant comment: "Why my B.P. [blood pressure] is high." Once again, John Jr. seemed to be exhibiting a pattern of irritability and impatience, so much so that it was affecting the organization.

However, the public relations efforts continued as planned and soon contributed to a signal success story for the private grain trade in its relations with the U.S. Department of Agriculture. It began with two steps backward. In January 1956, the House Committee on Appropriations issued a preliminary report highly critical of the private-trade warehousemen about the deteriorating condition of government-held grain. Then, on April 6, 1956, the USDA issued an order limiting delivery of grain for Commodity Credit Corporation (CCC) export contracts only to seaboard points. This wiped out the flexibility that the private grain trade had had in delivering grain for export at inland points, important for companies like Cargill with facilities in many parts of the country. The *Northwestern Miller* commented about this controversial decision: "USDA officials agree that interior sales do not necessarily dislocate internal market price patterns . . . that any such dislocations . . . are quickly equalized. But they say . . . that the f.o.b. port sales decision will remove even any *trace* of such dislocation" (emphasis mine). The editors felt that this rigid CCC position was drawing a "deepening wedge" between the government and private industry; "the department [USDA] may be only a step away from a complete takeover of the entire trade in grains."

Cargill executives, with the help from the Byoir group, worked assiduously with many others in the industry to reverse this decision and had

quick success. On July 17, 1956, the government, in a surprising turnaround, killed the plan altogether, in the process allowing grain traders to fill some of the requirements from open market purchases around the country. A payment-in-kind subsidy for exporters of wheat also was established. Certificates were issued at the applicable subsidy rate when exporters made private sales at the lower market rate, and these certificates were redeemable in wheat from CCC stocks.

The *Northwestern Miller* hailed a "return to free marketing," noting that the grain trade was "cautiously pinching itself to see if it's awake and not dreaming, that there is at long last a bend, if not a reverse turn, in the rough and narrow road of state trading. . . . The government does not, indeed, completely retire from the grain market, but at least it lifts one of its feet from it."

An outgrowth of the earlier decision of the government not to allow CCC deliveries other than at seaboard points had been a tightening of grain available for sale at interior points. Cargill had been quick to buy what was left, particularly grain from the Northwest, and a number of the commission men in Minneapolis felt their own interests were being damaged. Finally, John Jr. decided to enter the public relations fray himself. He wrote his daughter the next day: "Yesterday I had another very strenuous day when I was host at luncheon for the eight leading commission men in Minneapolis . . . our aggressive procurement program in the country has gotten them by the ears and it reached a point where I almost needed a bodyguard to go around town." John Jr. had been diplomatic at this meeting, and it seemed to alleviate much of the tension.

There also had been new contacts between Cargill and the Chicago Board of Trade. In August 1956, John Jr. received an invitation to lunch from Julius Mayer, his old friend from Continental Grain who had stood behind him in the Corn Case. On this occasion Mayer, now chairman of the board of the CBOT, posed the question of whether Cargill could be persuaded to return to the Exchange. John Jr.'s diary entry recorded the results: "Told him impossible until they get rid of limitation of lines" (i.e., limiting the amount of futures Cargill and other large traders could hold). The idea of return had taken root, however, and John Jr. wrote Robert Liebenow, the CBOT president, in December 1957, that he and his associates "have been giving serious thought to the matter of resolving our differences of opinion . . . and applying for clearing-membership . . . [in] reaching friendly ground, I sincerely hope that the following expression of our views will be helpful." John Jr. then proceeded to impose the condition that the CBOT must reconstitute its way of choosing directors so as to give explicit representation for the operating companies themselves. Apparently the CBOT board felt this to be too gratuitous, and the reconciliation fell through.[11]

The Research and Development Department

Cargill had been doing research for a good many years. Some had been of very high quality—the grain laboratory, where Julius Hendel had first worked, had done an outstanding job on grain grading, and Hendel also had interested himself in scientific feeds in the 1940s. However, most research had been done by individual divisions and, to use *Cargill News* words, "this resulted in an overlap of effort and facilities, and oftentimes a lack of qualified trained personnel to do the work." This slippage, a potential weakness of decentralization, now persuaded the Company that an outside consultant was needed, and the Midwest Research Institute was hired to study the Company's research function. Out of this came a suggestion that a Research and Development Department be formed. Dr. A. Richard Baldwin, who had headed the research department of Corn Products Company, was interviewed as a possible head. Even at this point, the Company executives seemed of two minds about just how much centralization could be accomplished. Pete McVay, for one, wanted to hire Baldwin but only for Oil Division research. Baldwin finally refused to come unless there was a truly centralized research effort. The dissenters grudgingly gave in, and he agreed to come as Cargill's first director of research.

With a large room at the Minneapolis Grain Exchange, he began what first seemed a rather ambiguous assignment—"John Jr. felt that I was there to help him get his own ideas further advanced; Cargill MacMillan thought I was there to keep John Jr. under control." Cargill MacMillan's concern was probably well considered, for John Jr.'s inventive mind was still actively producing a stream of new ideas. Some of these provided "leading edge" technology for the industry. Others had less direct application to Cargill business, and some were even outright failures. In the sweep of John Jr.'s inventions, the success rate was comfortably high, but a substantial percentage of failures was also to be expected.

John Jr.'s innovational thrust seemed to increase in the 1950s. Despite a demanding personal calendar cluttered with both internal problems and outside distractions, especially the Oats Case and the Seed Adulteration Case, he attempted to maintain a schedule that allowed a day a week at home, where he pored over piles of data and reduced his fresh ideas to hundreds of sheets of note paper. He instigated some major breakthroughs in grain trade technology. In 1957, he obtained an important patent on water craft propulsion. The notion had been tried on the two Cargill towboats, the *Carpolis* and the *Carpaul*, and involved a horizontal groove on each side of the vessel's stern that would channel water toward the propeller to take advantage of the jetlike force from the channeling through the groove (not unlike the pinching of a watermelon seed between two fin-

Schematic diagram of the "bubbler" ship propulsion design by John MacMillan, Jr., 1957.

gers). Nicknamed "the Bubbler," it worked very well and gave substantially increased efficiency to a ship's propulsion (*Cargill News* estimated some 20 percent). It had wide application, too, much beyond just Mississippi River towboats.

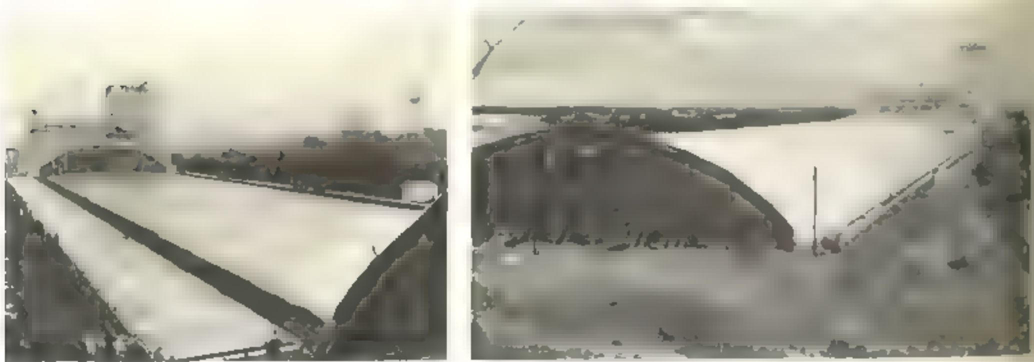
He also developed a heated tank for barging molasses, and new materials-handling notions were tried for unloading bulk aggregates. An air-inflated plastic cover for barges was also given a number of trials, and there were several rudimentary storage facilities on land using a polyethylene covering (Company personnel gave the name "Chloe" to these "stepchildren" after the poor girl lost in the swamplands, popularized at this time by bandleader Spike Jones).

The idea of using air actually to *hold up* a roof had intrigued John Jr. since the 1930s. At that time, he had applied for and obtained a patent on a form of air-inflated roof. There were several other related ideas patented by others, so it was not a singular invention. At the time, it was not clear whether this was a practical idea. In 1943, a Los Angeles construction company had put up such a building, an "igloo" form using a canvas roof. It was to become a laundry supply service's sorting station. Cargill's Fred

Drum was living at that time in California, and he kept John Jr. informed about it. John Jr. wrote: "I am quite sure he is infringing on my patent and we will wait until the building is up (or perhaps until he has a few more built) and then move in on him." Things were not right, however, and the entire edifice ignominiously collapsed shortly after it had been inflated. John Jr. wrote Drum: "I cannot help but think if they had consulted us first it could have been avoided," and he bemoaned the fact that "there are no prospects of my collecting any royalties."

But John Jr. still wanted to try it himself. A mockup was constructed at Port Cargill and seemed to work well. Then the decision was made to put up a full-scale grain storage elevator in Fort Worth, Texas, built on a modified igloo configuration, with square ends. It was a huge building, covering almost 2.3 acres—550 feet long and 158 feet wide; at inflation it was to be 38 feet high. The fabric was an aluminized steel sheet; this was to be held up by forced air. After many false starts, the "blow-up party" (John Jr.'s words) took place in July 1958. After five hours of inflation (John Jr. called it his "huff and puff"), the entire structure was in place. Even after the elevator was filled to capacity (with 1.8 million bushels of grain), the air pressure would continue to be used.

Unfortunately, the entrances and exits for loading and unloading drew away too much air pressure. Once again there was an equally ignominious collapse, and the Fort Worth project had to be abandoned. Company gossip sometimes attributed the collapse to the accuracy of the Fort Worth schoolboys with BB guns, but the truth was that a structure using the then-existing technology was not readily adapted to entrance-egress needs. This problem, of course, has been solved in more recent years; the Minneapolis Metrodome and others are good examples. Later, a circular variation was tried by the Company in Maumee, Ohio, with success.



Fort Worth elevator with air-inflated roof, before inflation and after inflation, June 1958.

There were other John Jr. innovations in the 1950s that had little or nothing to do with the grain trade. He had continued his interest in the helicopter and suggested to the air force an application of the same propulsion notion that he had developed for shipping. There were exchanges of letters and some model building, providing once again a distraction from regular duties. A good deal of time also was spent on an electrical amplifying device, and there was an exchange of correspondence with the Air Force Research and Development Command concerning his thoughts on guided missiles.

John Jr. also had become quite intrigued by the unidentified flying objects (UFO) phenomenon. He and Cargill MacMillan believed that they had seen one in March 1953 while vacationing at the latter's Spooner, Wisconsin, property. Once again, John Jr. made contact with the air force concerning this, as well as maintaining contacts with fellow UFO aficionados. He also continued his longtime interest in weather, keeping up his links with officials at the Air Force Cambridge Research Center and in 1957 appearing as a discussant at a conference on the "Present Position and Future Outlook for Applied Meteorology" (writing in his diary at that time, "My weather studies becoming increasingly interesting. My understanding of the mechanism increases year by year. For a week now have concentrated on the solar-lunar series").

In the mid-1950s, John Jr. had another idea that was before its time. This was the use of sails as auxillary power for large-scale shipping. He had several tall masts erected at Port Cargill in order to experiment with the extent of wind power at various mast heights. He wrote Austen Cargill in March 1955: "We should build ourselves an Inspection Vessel which is a combination sail and power. We can test out our sailing ship ideas at little or no risk . . . the attraction of sail is that it would simplify our long voyages . . . particularly to Europe and the Philippines. Fuel capacity becomes a minor item with sail." He drew plans for a 10-masted ship and estimated that it could make an Albany–Antwerp trip at about two-thirds the cost for a diesel ship. Nothing much happened to these ideas, and the notion faded away, accompanied by some derision on the part of Cargill employees. By the 1980s this idea had become a reality, with applications both to large cruise ships and commercial vessels.

Yet from a company viewpoint, Cargill MacMillan's and others' concern that Cargill's research capability not be dissipated by extraneous effort was well placed. Recent writers analyzing the innovation process have pointed to the need for an open, informal administrative structure for research and access on a wide basis for new ideas. Having as strong and dominating a force as John Jr. fueling the research effort at Cargill could tend to channel new ideas too narrowly.

In August 1955, the Company announced that it was going to construct

a major Research Department facility, two stories in height and costing approximately $350,000, to be located across the road from the Lake Office, in Minnetonka. The family corporation, Cargill Securities Company, provided the original financing. In 1958 it sold the building to the Cargill Pension Trust and the Cargill Foundation. The building opened in March 1956 and was dedicated to Austen Cargill.

Now Baldwin was able to pull nearly all of Cargill research into the department's orbit (although, at a later point, this high degree of centralization began to erode under renewed division pressure to "do our own research"). He supervised hybrid seed corn research, which continued at St. Peter, Minnesota, and Grinnell, Iowa, with new personnel added. The Oil Division laboratory was now brought into the Research Department, with a special oils and resins section and with several new people. The grain research laboratory at Elevator T, which had been under control of the terminal group, also was absorbed and continued its work on grain cleaning, separation and drying. This group also had done industry-leading work in explosion control.

It took several months to persuade the Nutrena group to become involved in the Research Department. It had an experimental farm at Pleasant Hill, Missouri; this seemed too far away to Baldwin, so he searched for a site in Minnesota, finding the right location at Elk River, some 30 minutes from Minneapolis; and Nutrena Research moved there under Baldwin.

One of the most important dimensions of feed research was the development of a proper scientific balance of ingredients. In the earlier days, feed mixing was a "rough-and-ready" task, but by the 1950s, feed companies competed vigorously on the basis of better scientific mixes. This now led the Company into another new technological field, the use of the computer.[12]

The IBM 650

By the early 1950s, a frontier in applied science, Operations Research, or OR, had found its way into the public press. In a significant *Fortune* magazine article in April 1951, what was called "this infant craft" was described in some detail. Up to this time the applications of OR had been primarily military. Its name had been coined by military scientists at the outset of World War II. "Now," *Fortune* said, it "may have a great future in the U.S. private economy." OR concepts involved complex mathematical calculations, using particularly the esoteric mathematics of linear programming (LP) models. LP was a method of solving a large array of simultaneous linear equations to provide a single "best" solution. As applied to business problems, it was highly effective in leading to a "least cost" solution. Given the complexity involved, it took a giant innovation to make OR a reality. This was the electronic computer. International Business Machines (IBM) was the pioneer here and in the early 1950s had developed an impressive machine they labeled the 650.

The Company first had installed IBM tabulating equipment back in 1927 under the aegis of John Jr. In August 1954, John Jr. requested Bob Harrigan, the Company's comptroller, to study the possible use of computers by Cargill. Calvin Smith was given the assignment to determine whether a computer could be economically justified to process normal accounting, financial and operating data.

As an interim step in October 1954, the Company ordered two IBM 604 electronic calculators. In the words of the IBM salesman, "the 604's were algebraically sound, could handle 100 cards a minute, and all you had to do was plug it in the wall." In May 1955, IBM announced the advanced IBM 650 magnetic tape system. Smith obtained approval to order the system, and on February 12, 1957, this computer became the second 650 tape system to be installed commercially in the United States.

Yet the power of this new instrument extended far beyond the mundane tasks of data processing, for with LP and other sophisticated mathematical techniques, a computer programmer could solve heretofore unsolvable problems. One of the first units of Cargill to begin to recognize this was the Feed Division. The missionary there, the person who initiated the thought and then pushed, persuaded and cajoled the division management to consider using a computer to try to rationalize some of the basic feed pricing problems was James R. Cargill, the son of Austen Cargill. The younger Cargill had been in the Feed Division for almost a decade, taking a wide range of responsibilities. In 1953 he was administrative assistant to J. D. Armstrong and had the responsibility for publishing Nutrena's weekly feed price lists, based on a set of costs calculated locally and sent in by each of the 10 Nutrena mills. Cargill, noting the lack of price consistency among the Company's geographically continguous mills and a rigidity in the feed formulas of several of these, suggested to James North (who had succeeded R. E. Whitworth when Whitworth died) and to other key Nutrena executives that Nutrena investigate using the IBM 650 to calculate feed formulas. There was only grudging backing of him at the start, for the existing way of calculating the formulas had become quite ingrained.

Despite the fact that proceeding on this would challenge some vested interests of plant managers, North allowed Cargill to proceed. Jim Cargill became a one-man committee, using a long series of memoranda from May 1955 to October 1956. His opening memorandum began: "The Age of Electronics has come to the feed business. We have arrived at the point where we must make a decision on how to apply the fantastic capabilities of an

ELECTRONIC DIGITAL COMPUTER to our business." The new computer, he vowed, readily could be adapted to calculating formulas, one of the most critically important decisions in the feed industry, with tremendous competitive implications. "Let's DON'T use it for checking our present method as that would be a waste of the computer's uncanny ability for volume and speed," he concluded; "let's put this thing to work where it will do us and our customers the most good."

Peat, Marwick, Mitchell & Co., Cargill's outside auditor (now named KPMG Peat Marwick), had a new OR department. So the Company requested it to recommend several possible OR firms for professional advice and help in writing LP programs for the Nutrena group. Caywood-Schiller Associates was selected and at one of the early sessions presented some very complex concepts. After the session there was some timidity and concern from the Nutrena group as to whether it could master the techniques. At a subsequent review session, Caywood told some of the disbelievers, "You have to have faith in God and chemistry." Jim Cargill wrote another persuading memorandum: "Is this the point to give up, or should we go ahead?" He urged a program for applying the LP techniques to one of Nutrena's most important products, Chick Starter.

Cargill and his programming colleague, Joe Clements, worked on the Caywood program under the direction of Caywood partner Don Schiller, and after a visit to the IBM home office to modify the Company's 650, the program was successfully run on this computer.

In September 1957, Nutrena went on-line with its major volume product called All-Mash Egg Feed, formulated by the sophisticated mathematics of LP, figured by the computer. All of this was accompanied by advertising that featured the computer, with a large full-page picture of Cargill's IBM 650 along with a poultry farmer and his wife. The lead for the advertisement trumpeted: "We saw Nutrena's electronic brain analyze 4 million ways to make egg feed." Nutrena was first in the industry to use a computer for scientific feed formulation, and this gave it an enormous competitive advantage. Other companies had to try to follow, but because of the complexity of the techniques, Nutrena had gained a quantum jump.

Shortly after Nutrena came on-line, Pfizer Corporation developed a new feed additive specifically designed to reduce costs for producers of broiler chicken feed. In order to promote this, Pfizer established a national competition, with the winner to be the person who could formulate the lowest-cost feed using Pfizer's additive. This was a natural application for LP, so Jim Cargill decided to enter Nutrena in the competition, using Nutrena's sophisticated computer program as a starting point. He drew on the 650 to compute the first 10 decimal places of the Pfizer-specified feed formula and, still not certain that only 10 decimal places would win, used a hand calculator to add 10 additional places. He submitted three entries, assigning the best of the three to his colleague, Clements, the next best to Warren Armstrong and the third best to himself. When the national results were in, Pfizer announced that Cargill had taken the first three places, just as Jim Cargill had planned. A three-wheeled Italian automobile was the prize, and Clements was awarded it.

The stunningly successful Nutrena use of the computer opened the eyes of the rest of the Cargill people. In April 1957, Jim Cargill was named staff assistant to Erv Kelm, "responsible for the application of Operations Research techniques in both the analysis of Company problems and in the development of long-range plans." John Jr. wrote a relative in December 1958: "Jimmie Cargill . . . is responsible for some accounting changes through the use of the I.B.M. electronic computers which have resulted in some spectacular progress." In 1959, plans went forward for use in the rest of the Cargill divisions, and John Jr. wrote his brother: "The most exciting thing we have had around here in a long time has been Jimmie Cargill's contention that we can add at least a cent a bushel to our terminal elevator margins by using the IBM computer. I must say that all the trial runs to date seem to confirm his contention. We are also getting pretty broad experience from the results of Nutrena's use of the machine, and everyone insists that the net gain is at the very least $2.00 per ton. So Jimmie's stock is going up daily."[13]

If linear programming could work for Nutrena feed formulas, it seemed to its boosters also to be applicable to the Grain Division, where grain mixing to grade was a key function. Once again, however, there was resistance from its line executives, who prided themselves on their ability to mix by drawing on their extensive past experience (in other words, by "feel").

A telling experiment was tried in 1963, when Cargill participated (with several other grain companies) in an extensive grain sale to the Soviet Union, the first that had been made to that country since the cold war began in the late 1940s. Part of Cargill's commitment was for 200,000 tons of durum. Durum grading was complicated; there were five grades, each with additional measures (density, moisture content, percentage of foreign material, etc.). LP seemed ideally fitted to the complicated matrix that would be involved here.

But serious logistics problems surfaced. The Albany terminal was to be the exporting elevator, as there was an adequate number of bins there to store the different lots. But the incoming rail cars could not be scheduled accurately enough to provide the various needed lots at the right time. The CCC was releasing some of the stored durum for part of the sale but was not willing to coordinate this with Cargill's dictated blending needs. Some incoming cars were misgraded, and other logistic complications multiplied. Finally, the Grain Division management fell back on traditional methods depending on human skill, and the Russians received their order

on schedule. But it was a disappointing development for the LP enthusiasts. As Jim Cargill put it, in a later speech on the Russian sale at an Operations Research Institute convention, "Our computer will serve us mightily and well, but in the clutch, men will continue to serve themselves."

Farmers and Farm Policy, 1956–1959

The Soil Bank legislation in 1956 and the constant pressure by the USDA on the farmer to cut production had led to a substantial decline in acreage for many crops as the 1950s progressed. Wheat acreage, at almost 62 million in 1951, had dropped to 43.7 million in 1957; corn acreage had stood at 80.7 million in 1951 and had dropped to 71.9 million in 1957. Yet the incredible productivity of the farmer from better equipment, wider use of fertilizers, more productive seeds and advanced cropping techniques overpowered all of this, with output staying at high levels all through the decade. The trend toward increasingly large farms had continued, and farm productivity, expressed as output per unit of input, using a baseline of 100 for the year 1951, skyrocketed to 122 in 1958 and to 128 in 1960. Wheat yields per acre stood at 15.7 bushels in 1950, rose to 19.4 in 1955 and to 24 in 1960. For corn, the same figures were 37.8, 42.9 and 56.5 bushels per acre. With generally dropping prices on the six "basic" commodities and with the parity concept essentially held in place (with only Secretary Benson's small downward calibration), it was inevitable that the government would be buying, storing and making attempts to sell huge amounts of storable commodities.

The value of the United States private sector's agricultural exports had been declining through the early 1950s, from a high of $3.4 billion at the end of the Korean War to a low of $2.2 billion in 1956, while the trend line of government export amounts was upward in this same period. With the new arrangements instituted in July 1956—the payment-in-kind and related programs—private grain trade exports totals jumped to $2.8 billion in 1957 and remained just below this figure in 1958.[14]

Cargill, in part because of its new posture in public relations, now became more vocal concerning national farm policy. In May 1957, *Cargill News* reported on a company proposal concerning a wheat subsidy (to eliminate a CCC regional differential between the East and the West coasts) and in August 1957 noted that Senator Hubert Humphrey had read into the *Congressional Record* the Company's views supporting renewal of P.L. 480. In March 1958, Cargill MacMillan made the unusual decision (for him) to write a letter on Cargill stationery to all of the congressmen in the United States. The Reciprocal Trade Agreements Act was being considered for extension by the House Ways and Means Committee at this time, and it seemed to Cargill MacMillan that protectionist elements were

Cargill MacMillan after his election as president of Cargill, 1957.

constraining the international trading of grain. The example he used was Japan's decision to turn to China for soybeans, rather than trading with the United States, where prices were too high because of "unrealistic" support prices. A copy of his letter was also printed in the April 1958 *Cargill News* under the title "Going on the Record in Congress."

Personal replies came from a number of congressmen, exhibiting a wide gamut of opinion. The farm policy debate had become increasingly acrimonious, witnessed by a widening breach between congressmen from the farm states and those with more urban and consumer bases. In the process, new coalitions between Republicans and Democrats were beginning to surface. Cargill MacMillan was the recipient of more hostility than one might have expected. As one could guess, the farm-based congressmen were less than enthusiastic about anything attacking supports. But even industry-oriented members criticized him. One, a representative from West Virginia, wrote: "It is plain from the tenor of your letter that you belong to the Long-haired internationalist group . . . because of your interest in the exportation of surplus American wheat to foreign markets. . . . Why should this continue when hundreds of small American industries are not getting government subsidies and are being forced to liquidate because they cannot meet the prices of foreign-made goods that are

gradually taking over the American consumer market." It was probably the first time that Cargill MacMillan had ever been called "long-haired."[15]

John Jr. also entered the argument, making several major speeches on why there was "too much government in the grain trade." The editor of an Indiana University publication, *Business Horizons*, persuaded John Jr. to contribute an article on his views. John Jr. agreed, and "Farm Surpluses: How to End Them" came out in the spring of 1959. It ranged over many issues. Population increases were analyzed and even dietary changes in India were mentioned. Central to the piece, however, was John Jr.'s desire for a free enterprise rationale for the farmer. The larger farmers would "utilize all of their tillable land, boost their total production, and lower their per-unit costs still further." The less efficient, "who have been willing to receive smaller margins in order to ride the gravy train in comfort," would have to "go back to work" and learn the new, efficient techniques.

The argument that skilled farmers would not be hurt by the elimination of support prices was widely debated in this period. Two economists, Willard Cochrane and Mary Ryan, in a 1976 book, analyzed this senstive issue and concluded that if supports had been taken off in the late 1950s, "the index of prices received would fall between 10 to 20 percent . . . the studies consistently indicated that the price of wheat would fall by nearly 50 percent, feed grains by 20 to 30 percent." Over the longer run, so other studies posited, the laws of supply and demand would stabilize farm prices and farm income. But Cochrane and Ryan disputed even this conclusion: "The elimination of government programs in the agricultural sector in the decades of the 1950s and 1960s would have resulted in extended periods of severely depressed farm prices and incomes . . . government programs did support farm prices and incomes significantly above equilibrium levels in the short and intermediate runs." Over the "very long run there is still some question," but Cochrane and Ryan concluded that few could have held on for that long. Only "some commercial farmers—the fittest" would have survived and grown.[16]

The Death of Austen Cargill

On May 24, 1957, Austen Cargill died. He had just turned 69 years of age. He had had the longest service in senior management of anyone in the Company at this point, joining Cargill in 1909 and becoming a director in 1911. After working with Ed Grimes in Milwaukee, he left for service in World War I, returning first to the La Crosse & Southeastern Railroad and then to the family's Cargill Securities Company lumbering operation in British Columbia. In 1926, he returned to the parent company, after a short stint with the La Crosse & Southeastern bus operation. He had concentrated on the country elevator system, but his interests were varied, and he

Austen S. Cargill, mid-1950s.

made major contributions to the transportation side of the business, too. Elected executive vice president in 1944, he became Cargill's chairman of the board in 1950, a post he held until he retired in 1953. He remained on the board and its Salary Committee, however, and held these posts until his sudden death.

It was not just that Austen Cargill was a longtime member of top management. Whereas John Jr. and Cargill MacMillan were from the third generation of the family, he was second-generation, for he was the youngest son of the founder of the Company, W. W. Cargill. His position as the representative of the Cargill family interests was critically important. From time to time there had been tensions between the two families, the Cargills and the MacMillans, the most serious being the struggle for control in 1925. To the credit of the three family members—Austen Cargill, John Jr. and Cargill MacMillan—they had been able to move through these differences of opinion to a rapprochement that resulted in unified management—at least unified publicly. Some private reservations might have remained.

Yet there was more than just an accommodation among the three; there was friendship and goodwill, although one could not classify this as being 100 percent. John Jr.'s dominating personality had sometimes been less than fully attractive to Austen Cargill (as it had been equally unattractive to others). Austen's relationship to Cargill MacMillan seemed more straightforward. They appeared to think more nearly alike on many matters, and both men provided a steadying rein for John Jr.'s impulsivity. When one views Austen Cargill's role as a family balance wheel between the Cargills and the MacMillans, his loss becomes far more significant. Eras had passed with the deaths of W. W. Cargill, John MacMillan, Sr., and Ed Grimes. A similar milestone was reached with the death of Austen Cargill.

There was the usual eulogy in the minutes of the corporation, but this time it took a different path. The directors chose to reprint in full "as being the most fitting memorial" the speech that Austen Cargill had made at the commencement of the 1949 graduating class of Lake Forest Academy, from which he had graduated in 1908. He had asked the graduates for "your *whole* integrity and *absolute* honesty," rather than living in half-truths. One found what he called "the absolutes," not by intellect alone but by a personal God. "You don't have to go to church to find Him," he ended; "you can find Him anywhere. I found Him in the forests of British Columbia when I came up against a major crisis [his relation there with John Jr.]. I find Him when I am aboard ship at sea, when I am hunting or fishing. In fact, I feel closest to Him when I am close to nature." He exhorted the graduates to find "these great spiritual overtones" and to live by them. The sincerity of his words did seem to exemplify the man himself—he had been a very large moral force on the Company, and this legacy was probably his most important.[17]

Austen Cargill's death changed the ownership holdings equations in the Company, particularly so because his executors needed to sell Cargill stock in order to pay the estate taxes. To see this in perspective, some other issues related to stock holdings first need to be introduced.

Common Stock, Management Stock

In the late 1940s and early 1950s, John Jr., Cargill MacMillan and Austen Cargill had become aware again of the relationship between family holdings and outsiders' holdings of common stock and of the related issue of building an incentive system for senior management that would retain key people in the Company. They had come to believe that there was too much regular common stock being held by non-family members. Cargill MacMillan expressed this in one of his private memoranda as follows: "More & more Cargill stock falling into hands of trustees—we may wake up to find owner management a myth." John Jr. explained to the Executive Committee in the early summer of 1954 his goal of (1) reducing the number of common stockholders to 20, (2) exploring the possibility of changing the stock base of the four senior management people who had ordinary common stock (John Peterson, Fred Seed, Erv Kelm and Julius Hendel) and (3) developing a plan of reorganization of the corporate structure that would create a new class of stock, to be called management stock. It is not clear what was motivating John Jr. on this, but it seems likely from subsequent events that it was not just the desire for a management incentive program but also a strong personal desire to narrow the control of the Company into the hands of only the three families.

John Peterson prepared a long memorandum to the Executive Committee in August 1954, analyzing the stock holdings. He saw the 48 non-family shareholders as representing four different categories. First, there were the old employees and their heirs, who had been sold stock in 1916 by John MacMillan, Sr., at the time of reorganization. Second, there were the collateral relatives of W. W. Cargill, their heirs, trusts, and so on. Third, there was a set of shares owned by the John D. McMillan family, the Edward Osborne family, and James Taylor. And fourth, there were the four officers (Peterson, Hendel, Seed and Kelm) who owned what Peterson called "incentive stock." These four groups comprised 28 individuals. The remaining 20 common stockholders were the direct descendants of W. W. Cargill and John MacMillan, Sr., their trusts and members of their families. On July 31, 1954, there was a total of 236,614 shares of common stock.

Peterson further classified these according to the difficulty there might be in regaining control of the shares: All of the old employees, holding 7,645 shares, had at the start agreed to the Company's having a unilateral repurchase option; several of the collateral family (the Barkers, the Wisners, the Allers), holding a total of 7,850 shares, had given similar options. Likewise, the four officers had tendered options for repurchase—a total of 30,500 shares. Then there was a set of collateral family who had given no options: James B. Taylor, Ed Osborne and George Hoffman and his relatives, with a total of 19,234 shares. Last, there was the John D. McMillan "clan" (Peterson's word), who also had given no option and who held 2,775 shares. The total of all of these was 68,004 shares, leaving the three direct families holding 168,610 shares.

John Peterson saw some problems here. "The really troublesome stock," he wrote, "is likely to be that of Ed Osborne, Jim Taylor—each for his own special reason—and the heirs and their trusts of John D. McMillan." Further, the terms of any repurchase of the stock owned by the four management men had not been reduced to a formal option agreement. However, Peterson continued, "we all know what the intention was." The provisions that applied with the purchase of the Dwayne An-